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**Directorate-
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The economic situation in the Community

1

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Quarterly survey

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EUROPEAN COMMUNITIES

COMMISSION

The Economic Situation in the Community

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Note:

This survey was completed around mid-March 1968. As regards the most recent developments and where it has not been possible to take them into account because of the pace at which national statistics are prepared and the time it takes to publish the Survey in five languages, the latest issue of the "Graphs and Notes on the Economic Situation in the Community" can usefully complete the information supplied here.

I. THE OVERALL SITUATION

The revival of general economic activity in the Community, which got under way in the middle of 1967, gained appreciably in strength in the winter months. Internal demand (especially industrial investment), rising at a more rapid pace, made a particularly vigorous contribution to the recovery. This led to an improvement in the situation on the labour market and a very appreciable revival of imports, while the price trend remained comparatively settled.

The outlook for the rest of the year suggests that the economy will continue to expand fairly rapidly. The rise in exports to non-member countries will, however, probably lose momentum—though certain factors the impact of which it is difficult or impossible to assess preclude any accurate prediction of the extent of the slow-down. As against this, it can be expected that Community internal demand in money terms will grow more rapidly, and the spurt may even prove more vigorous than has been foreseeable so far. This assumption is mainly based on the unexpectedly rapid upswing of domestic demand, particularly demand for capital goods, in the Federal Republic of Germany, and on the reflationary measures taken recently in France and Belgium. One important effect of the accompanying improvement in the employment situation will probably be a distinctly faster expansion of private consumers' expenditure.

In view of the outlook for demand, the forecasts for production and imports published previously must likewise be revised upwards. The growth of the real "GNP" of the Community for 1968 is now put at roughly 5 %. At the same time the balance of trade must be expected to deteriorate even more than was originally expected.

The price trend will probably remain settled. With the expansion of demand accelerating and firms running steadily nearer capacity, strain may, however, emerge once again on some individual markets towards the end of the year.

In a Recommendation on economic policy for 1968 which it addressed, on a Commission proposal, to the Member States on 9 March 1968, the Council of the European Communities therefore laid special emphasis on the need for action to ensure that the rate of growth will be such that manpower and technical resources can be fully used without the present trend towards stability being jeopardized.

A. Recent developments

1. Demand

At the end of 1967 and apparently also at the beginning of 1968, the expansion of overall demand in the Community gathered distinct momentum, since internal demand in particular had gained in vigour.

Export demand—i.e. goods and services actually exported to non-member countries—also expanded more markedly than in the summer months. Foreign trade statistics show that in the fourth quarter of 1967 the value of visible exports was some 6.5 % up on the same 1966 figure. In addition to the increasing recovery of world economic activity (which had not yet suffered to any appreciable extent from the recent economic measures of the United Kingdom and the United States) and a combination of favourable special circumstances on the demand side, the continued remarkable elasticity of Community export supply was another major factor contributing to this development. It appears, however, that around the turn of the year the rise in exports tended to level off.

Deliveries to the United States staged a noteworthy recovery; in the last quarter of 1967, the rate of year-to-year growth almost matched the exceptionally high level recorded during 1966. No doubt this is a reflection of the continued rapid expansion of domestic demand in this country: fixed investment by firms was expanding somewhat more markedly than before, and the appreciable rise in personal incomes engendered an unmistakable expansion in private consumers' expenditure. Several member countries in addition have benefited from a recent tendency by American firms to build up heavy stocks of steel and semi-finished steel products, mainly because of the danger of strikes in the steel industry towards the middle of 1968.

At the same time purchases by the United Kingdom rose, despite the devaluation of sterling in mid-November 1967 and the measures of domestic restraint taken in connection with it. In part this may, however, have been a result of moves to make good shortfalls in imports which had been caused by the London and Liverpool

dock strikes in September-October 1967. Apart from this factor, the increase in United Kingdom purchases abroad was probably mainly due to the fact that in anticipation of further measures to curtail demand, such as higher taxes from the beginning of the new budget year on 1 April 1968, consumers temporarily stepped up their demand for imported goods.

At the turn of the year, the trends of Community sales to the other non-EEC industrialized countries showed, on the whole, little vigour. This applies in particular to imports by the continental EFTA countries, although the slight recovery of economic activity as reflected in various indicators for some of these economies may well, even before the turn of the year, have had a somewhat more marked influence on the trend of imports.

The Community's exports to the developing countries expanded somewhat more briskly in the closing months of 1967, but it is doubtful whether this acceleration can be considered as an improvement in the trend since it was mainly attributable to a vigorous recovery of exports to countries of Asia. The Middle East crisis and its aftermath had previously cut deeply into sales to this area. By contrast, exports to the countries of the Eastern bloc did not grow as much as tentative data had suggested.

Internal demand in money terms in the Community expanded at a faster pace in the period under review; almost all demand components shared in the gains made.

Gross fixed asset formation in particular was recovering briskly at the end of 1967, and in the early months of 1968 it showed a distinctly expansionary trend. Actual spending on investment in plant and machinery, in particular, gathered considerable momentum when the propensity to invest improved distinctly in the course of the second half of 1967. This was especially true in Germany—witness the heavy flow of domestic orders for capital goods in this country. Although the actual development of investment in construction was at times sharply curtailed in some member countries by the very severe winter, the underlying trend probably

Visible exports to non-member countries

(Values and % changes on preceding year)

	1966		1967				
	million u.a. 1	%	1st quar- ter	2nd quar- ter	3rd quar- ter	4th quar- ter	Year
To all non-member countries	29 419	+ 8.5	+ 11	+ 9	+ 3	+ 6.5	+ 7.5
of which:							
To industrial countries ²	19 127	+ 8.5	+ 9.5	+ 8	+ 3.5	+ 7	+ 7
including :							
United States	4 098	+ 19.5	+ 12.5	+ 6	— 2	+ 14	+ 8
EFTA : total	9 999	+ 4	+ 4.5	+ 6	+ 1.5	+ 5.5	+ 4.5
United Kingdom	2 541	+ 7.5	+ 5	+ 12.5	+ 7.5	+ 23.5	+ 12
To developing countries ³	7 957	+ 6	+ 9.5	+ 5.5	— 1.5	+ 3.5	+ 4.5
including :							
Associated overseas countr. and territories	1 707	— 1.5	+ 8	+ 11	+ 0.5	+ 0.5	+ 5
To other areas ⁴	2 330	+ 18	+ 27.5	+ 33	+ 17.5	+ 14	+ 22.5

Source : Statistical Office of the European Communities.

¹ 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US \$ 1 at the official exchange rate.

² Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

³ Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

⁴ Class 3 of the Standard Country Classification for Foreign Trade Statistics of the EEC and other destinations.

continued upwards and may even have gathered a little momentum. Not only did public investment in general remain very dynamic, but industrial building too continued to make considerable progress in several member countries. Lastly, in residential construction, the recovery in the trend of building starts discernible in the Federal Republic of Germany in the past few months almost certainly more than offset, at Community level, the weakening of the same demand component in the Belgo-Luxembourg Economic Union at the beginning of 1968—particularly since in the other member countries investment in residential construction continued to tend upwards.

Investment in stocks was decisively influenced by the improvement in the business climate, productivity gains and the settling of certain doubtful points connected with the turnover tax reforms in some member countries; its vigorous rise contributed substantially to the acceleration of overall economic growth in the Community.

Total expenditure on consumption in the Community also expanded distinctly at the end of 1967 and the beginning of 1968. In particular, the expansion of private consumers' expenditure—mainly as a result of growing confidence in the future economic trend—has gathered some momentum. In the Federal Republic of Ger-

many, private consumers' expenditure rose sharply in December as consumer reticence—in part in anticipation of price increases through the introduction of the tax on value added—largely disappeared, particularly in respect of consumer durables.

In most other member countries private consumers' expenditure has also been rising more (apart from variations) in the past few months; this tendency has been most pronounced in the Netherlands and weakest in Belgium. In the fourth quarter of 1967, sales of passenger cars in the Community as a whole were some 6 % up on the corresponding period of the previous year.

The trend of disposable incomes has been largely in line with these tendencies. In particular, it appears that even in Germany the sum of wage, salary and transfer incomes is rising again more significantly as a result of the revival of economic activity, which has been clearly reflected both in the numbers employed and in the average number of hours worked.

2. Production

As in general substantial reserves of both unused technical capacity and manpower have been available, internal supply in the Community has been easily adjusted to the more rapid expansion of overall demand in money terms.

Industrial production recovered in all member countries—in some of them even at an appreciable pace; by the end of 1967 it was only in the Belgo-Luxembourg Economic Union that the rise was still very moderate. The seasonally adjusted index of the Statistical Office of the European Communities (which excludes construction and food, beverages and tobacco) shows that industrial production in the Community rose by a good 3 % from the third to the fourth quarter of 1967; in the fourth quarter it was 5 % up on the level of the corresponding period of the previous year.

The plant and machinery industries—which were those previously hardest hit by the slackening of demand—made a major contribu-

tion to the exceptionally vigorous growth of industrial production. But output in the durable consumer goods industries, such as the motor industry, also spurred vigorously.

The building industry, too, contributed appreciably to the lively growth of Community supply. Although weather conditions made it necessary to reduce building production at times more than in the previous winter, the underlying trend has continued to move upwards fairly distinctly as the order situation in the Community as a whole has gradually improved—indeed of late the trend has gathered a little more tempo.

The faster expansion of industrial production and the somewhat more pronounced upward tendency of building activity were in part achieved through very substantial productivity gains. But in most member countries there was also a rise in the total number of hours worked—at first mainly in the form of a longer average working week and of late increasingly in the form of a rise in the number of persons in paid employment. The situation on the labour markets in the Community has therefore steadily improved in the past few months: as demand for additional manpower has been very lively in some countries, unemployment has tended downwards or at least to all intents and purposes stopped rising.

3. The balance of the markets

The progressive recovery of general economic activity in the Community has now definitely affected the trend of imports from non-member countries: visible imports by the Community, which were still rather slack well into the summer of 1967, have since been rising at a distinctly faster pace. The (seasonally adjusted) foreign trade statistics show that their value rose by some 6 % from the third to the fourth quarter of 1967. In terms of volume this rise was, however, probably somewhat less pronounced since the cif values of imports of major products—particularly petroleum—included heavy freight costs as a result of the exceptionally sharp rise in freight rates which began with the Middle East crisis.

Visible imports from non-member countries

(Values and % changes on preceding year)

	1966		1967				
	million u.a. 1	%	1st quar- ter	2nd quar- ter	3rd quar- ter	4th quar- ter	Year
All non-member countries	30 756	+ 7.5	— 1	+ 0	— 2	+ 2.5	+ 0
of which:							
Industrial countries ²	17 320	+ 6.5	— 3.5	+ 1	— 4.5	— 2	— 2
including :							
United States	6 022	+ 6	— 5.5	+ 6	— 6	— 5.5	— 2.5
EFTA : total	7 245	+ 5	— 2.5	+ 0	— 5	— 1.5	— 2
United Kingdom	2 782	+ 7	— 1	+ 3	— 3	— 10	— 3
Developing countries ³	11 326	+ 7.5	+ 1.5	— 2	— 0.5	+ 8	+ 1.5
including :							
Associated overseas countr. and territories	2 283	+ 11.5	+ 3.5	— 6	— 4	+ 6.5	— 0.5
Central and South America	2 731	+ 4.5	— 1.5	+ 5	+ 5	— 10.5	+ 0.5
Other areas ⁴	2 107	+ 15.5	+ 4	+ 6.5	+ 11	+ 13	+ 8.5

Source : Statistical Office of the European Communities.

¹ 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US \$1 at the official exchange rate.

² Class 1 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

³ Class 2 of the Standard Country Classification for Foreign Trade Statistics of the EEC.

⁴ Class 3 of the Standard Country Classification for Foreign Trade Statistics of the EEC and other sources.

It was necessarily the developing countries which benefited most from the increase in Community demand for raw materials and energy products, which were being imported not only to meet current consumption but also for the replenishment of depleted stocks. Imports by the member countries from the EEC Associated Overseas Countries and Territories in particular, which hardly increased at all during most of 1967, have staged a recovery in recent months. The upswing in demand for finished products—particularly for plant and machinery—also engendered a conspicuous rise in imports from the industrialized countries.

With the economic situation in the Community improving, visible trade between the member countries, too, gained appreciable strength. On the basis of the seasonally adjusted import figures, its value rose by almost 9 % from the third to the fourth quarter—while from the second to the third quarter it had declined by 3.5 %. In the fourth quarter it was about 7.5 % higher than a year earlier. All member countries contributed to this vigorous expansion of intra-Community trade. There is, however, no doubt that the most important factor was the rapid expansion of German imports from the other member countries, which reached al-

most 7 % from the third to the fourth quarter. Still, the other member countries' purchases inside the Community also rose at an appreciable pace. Indeed, purchases by France have of late expanded at a faster rate, now that in this country industrial activity is steadily recovering and food purchases are back to normal, having dropped sharply for a time. Growing food imports also made a heavy contribution to the maintenance of the brisk rate of expansion of Italian imports. In the Netherlands, the consolidation of the new phase of expansion led to an upsurge of imports—particularly of raw materials and plant and machinery. There was also a distinct recovery in BLEU imports from the other member countries, which was in part attributable to efforts to make good delays in the clearing of imports held up by strikes, but in part also to moves to replenish stocks as a result of the revival of production.

On the export side, the main effect of the faster rise in demand from the Federal Republic of Germany was an increase in intra-Community exports by France and Italy.

The visible trade balances of the individual member countries with the other member countries, however, showed on the whole no fundamental change. Germany's surplus still remained appreciable (although tending to contract a little), and indeed the BLEU surplus was definitely tending to rise. The trend of Italy's trade balance was towards an improvement, while France's trade with the other member countries again closed with a small deficit. As against this, the tendency for the Dutch deficit on visible trade with the other member countries to increase gained a little strength.

To the extent that it has been determined by the current state of business activity, the price trend has remained comparatively settled in the past few months. For one thing, supply both from domestic production and from abroad has remained sufficiently elastic to enable rising demand on almost all markets to be met without difficulty. Secondly, in respect of wage costs, the upward movement of average hourly wages continued to gather only a little momentum, for productivity gains remained appreciable. However, wage costs per unit of output

continued to increase in Italy and Belgium. In the Federal Republic of Germany, by contrast, further appreciable productivity gains probably again eroded wage costs. Early in 1968, Community consumer prices, under the influence of autonomous or external factors, nevertheless rose at a more rapid pace. The introduction of the tax on value added in Germany and its extension to retail trade in France led in both countries to a marked rise in the level of consumer prices. In Germany, charges for services in particular increased appreciably; in France, food and other products became substantially dearer. In the Netherlands, turnover tax on items previously attracting tax at 10 % was raised to 14 %; rents were also raised by 4 % (for state-subsidized dwellings as from 1 January and for other dwellings as from 1 May). In Germany and in France rents also rose.

The Community's visible trade balance with non-member countries tended to deteriorate in the fourth quarter of 1967 as a result of the vigorous increase in imports; for seasonal reasons, however, it closed with a somewhat higher surplus than in the previous quarter. The current account probably developed along parallel lines. By contrast, capital movements between the Community and non-member countries closed with a heavy deficit in the fourth quarter: not only was there a continued net outflow of long-term private capital, but following the devaluation of sterling there were also signs of a reversal in the trend of the balance of short-term capital movements, which hitherto had been earning a surplus.

The official gross gold and foreign exchange reserves of the member countries, which had risen appreciably up to November of last year, have since been declining steadily. Following a repatriation of foreign assets effected at the end of 1967 as part of the usual window-dressing operations, the net foreign exchange position of the commercial banks, by contrast, probably improved again at the beginning of 1968: this development was encouraged by the efforts of some central banks to facilitate short-term capital exports with a view to keeping interest rates stable on the international money markets, and more particularly on the Euro-dollar market.

At the turn of the year, transactions with abroad were thus contributing little or nothing to the expansion of internal liquidity in the Community.

The cash transactions of the public authorities tended to expand liquidity only in Germany. Italy, the Netherlands and France recorded surpluses, as usual for the season, though in France these remained significantly below the level of a year earlier, while in Italy and the Netherlands they were larger than at the end of 1966.

As against this, the vigorous expansion of bank advances to business and private customers led to a strong increase in liquidity in all member countries. In Germany in particular, where total lendings had shown little or no change in the first ten months of 1967, the vigorous upswing of economic activity led to an exceptionally sharp rise in the demand for credit at the end of the year.

While on the money markets of the Community interest rates have been kept to a great extent stable in the past few months, rates on the capital markets have tended to harden somewhat, mainly because of the devaluation of sterling, Bank rate increase in major non-member countries and the announcement of the US balance-of-payments programme. At the end of 1967, interest rates on the bond markets of the Member States thus showed a distinct tendency to rise despite measures taken by the Central Banks to influence liquidity. On the share markets of the Community the trend of quotations, which during the summer and until well into the autumn of last year had been moving very distinctly upwards in all member countries, faltered for a time. Germany was the only country where share prices continued to rise almost uninterruptedly. In France, too, share prices recovered a little towards the end of January, after the announcement of a comprehensive programme to support economic activity.

B. Outlook

As explained in the last Quarterly Survey (No. 4/1967), the economic outlook in the Community for 1968 is somewhat difficult to assess. There is in particular some uncertainty as to how vigorous external demand will be, since it remains difficult to estimate accurately the effects of the devaluations of mid-November 1967, of the internal measures of restraint taken by major non-member countries, and of the US balance-of-payments programme announced at the beginning of January 1968. Added to this, there are the uncertainties created by the heavy speculation against the dollar, which revived at the beginning of March 1968 and led to the introduction of a two-tier gold price. The following comments on the economic trend in the Community and the most important non-member countries in the months ahead are based on the assumption that it will prove possible, by appropriate measures, to improve the functioning of the international monetary systems and thus to ensure the untrammelled development of world trade.

Among the new factors which emerged after the completion of the last Quarterly Survey and which are of importance for the prospective economic trend in the United States, mention should be made of the US budget proposals for fiscal 1969 (beginning on 1 July 1968). For the fiscal year as a whole, the aim is to curb the expansion of public spending, but there is an assumption, in respect of revenue, that the increase in personal and corporate income tax which the Administration has been calling for for many months will be achieved, although it is still uncertain whether Congress will adopt the necessary legislation. The success of the efforts to curtail the inflationary expansion of demand will, however, largely depend on whether and when this tax increase becomes effective. Further delay in the introduction of the tax measures would presumably force the authorities to tighten up monetary and credit policy further; indeed, the increase in the official discount rate on 15 March is evidence that this is already happening. The effect of a tighter monetary and credit policy on domestic demand would, however, be less restrictive than that of a tax increase.

It is however, precisely the cost and price trend in the United States—very difficult to predict as long as the economic policy decisions are not yet taken—which will affect visible Community exports to that country most. Although the mere fact that the real growth of the United States GNP will presumably accelerate fairly markedly (to about 4.5 % for 1968) can be expected to mean a higher rate of expansion of purchases from the Community than in 1967, import demand may be even greater if the steps taken to combat the internal disequilibrium of the American economy prove insufficient. But if American imports were to be made subject to a surcharge in the near future—a measure apparently under consideration as a means of improving the balance of payments—the Community's export prospects would deteriorate, though it is impossible to say at present to what extent.

Community exports to the United Kingdom will presumably tend to decline in the next few months, as a result of the devaluation of sterling and the impact of the internal measures of restraint on British import demand. The Chancellor of the Exchequer's budget speech on 19 March 1968 emphasized the Government's determination to curb drastically in 1968 the expansion in terms of volume of overall domestic demand, to check the rise in imports and to set free sufficient capacity to accommodate the expected upswing in exports. As for several reasons private consumers' expenditure has had to bear the brunt of the restrictive measures, the purchasing power and the propensity to spend of households are to be curbed by a combination of what are mainly measures of taxation policy and incomes policy. The new budget provides for increases in taxation—mainly excise duties—totalling a good £ 900 million per year (£ 775 million in the fiscal year 1968/1969). The Government is also endeavouring to tighten up prices and incomes control; in principle until the end of 1969 incomes must not be allowed to rise by more than 3.5 % per year. As against this no additional credit restrictions were introduced and Bank rate was lowered on 21 March: this suggests that it is at present not deemed necessary

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ⁴		1968 ³
	At current prices in '000 million u.a. ⁵	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Gross fixed asset formation	69.5	+ 3.3	+ 5.9	+ 1.5	+ 2	+ 6.5
Public current expenditure on goods and services	43.8	+ 2.8	+ 8.0	+ 4	+ 7.5	+ 3.5
Private consumers' expenditure	182.3	+ 4.3	+ 7.8	+ 3	+ 5.5	+ 3.5
Gross Community product	301.5	+ 3.9	+ 7.2	+ 3	+ 5	+ 5
Balance exports ⁶ less imports ⁶ (at current prices, in '000 million units of account)	+ 2.8		+ 3.5		+ 5.7	+ 4.4

¹ Statistical Office of the European Communities : National Accounts 1957-1966.

² Commission estimates.

³ Commission forecasts.

⁴ Based on Community totals of the aggregates of the individual member countries at official exchange rates.

⁵ 1 u.a. = 1 unit of account = 0.888671 g of fine gold = US \$1 at the official exchange rate.

⁶ Goods, services and factor income.

Note :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with the experts of the member countries but are established and published on the sole responsibility of the Commission.

to use monetary instruments to reinforce restraint.

At present there is no evidence that the trend of Community exports to other non-member countries will show any fundamental change in the months ahead. Deliveries both to the other industrialized countries and to the developing countries will probably expand at a fairly modest pace.

By and large, the Community's export outlook thus conforms closely to the expectations set out in the previous Quarterly Survey. It remains a reasonable assumption that the rise in exports to non-member countries will lose mo-

mentum in the course of 1968 and that the export growth rate for the year as a whole will be appreciably smaller than the 1967 figure.

It appears, however, that in 1968 the expansion of internal demand in the Community will prove more vigorous than could previously have been foreseen.¹ This new assessment is mainly based on the unexpectedly sharp upswing of domestic demand in Germany around the turn of the year; it is also supported by the certainty that the recovery will continue, since it is already very firmly underpinned by a considerable in-

¹ See country chapters.

crease in private investment activity—witness the brisk flow of orders placed with the capital goods industry. The reflationary measures adopted in Belgium and France are also likely to accelerate economic growth in these countries. The forces of expansion will probably spread increasingly throughout the Community: the latest trends of intra-Community trade suggest that this is already happening. As, in the circumstances, the average working week will lengthen and the numbers employed will go up, and as in addition wages may rise more than was hitherto assumed, private consumers' expenditure will also probably expand faster than before.

Given the trend of demand, production forecasts too must be revised upwards. The growth of the real Community "GNP" for 1968 may now reach 5 %. The estimate of the growth rate

of Community imports from non-member countries must therefore also be modified. With the export outlook virtually unchanged, this means that the balance of trade and the current account must be expected to deteriorate even more than had been assumed in the last Quarterly Survey.

While at the beginning of the year there were appreciable price movements in some member countries because of reforms of the system, or increases in the rates, of excise duties, the price trend is likely to become more settled again in the next few months. As the expansion of demand is gathering distinct momentum and manpower and technical capacity reserves are increasingly taken up, the time may, however, soon come when the cost and price trends will once again begin to engender a measure of strain on individual markets.

C. Short-term economic policy

This forecast of economic developments for the rest of the year is partly based on the assumption that the Member States will pursue an appropriate economic policy of the type described in detail in the country chapters. In this connection mention must also be made of the new Recommendation on economic policy for 1968 which the Council of the European Communities, acting on a Commission proposal, addressed to the Member States on 9 March 1968 (the text is given as an annex to this chapter). The Short-term Economic Policy Committee and the Monetary Committee were consulted before the Council discussed the Recommendation.

In this document the Council laid down the guidelines for an active but at the same time highly flexible policy in support of economic activity. It calls upon the authorities of the individual member countries to take action to ensure that in the coming months the level of growth will be such that the productive resources can be fully utilized while seeing to it—since in most member countries the price trends are not completely satisfactory—that the tendency for the economies to become more stable is safeguarded. In this connection, the Recommendation emphasized the need to forestall a rise in interest rates which could be the result of the policies pursued in major non-member countries. The Council does not, however, completely rule out the possibility that in the second half of the year external factors may cause a slowdown of economic activity in the Community, a tendency which should be countered in good time by a concerted effort to keep up the expansion of aggregate demand.

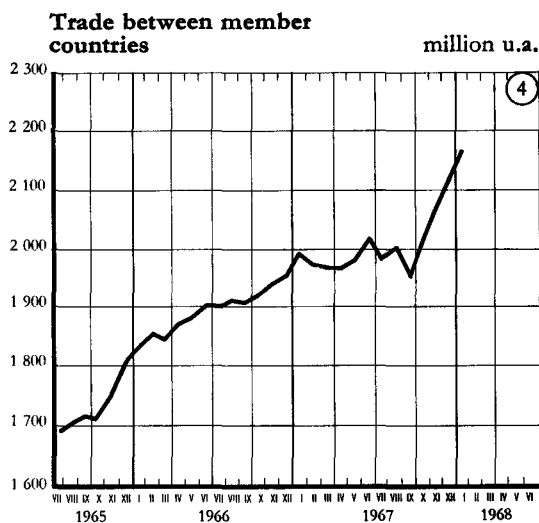
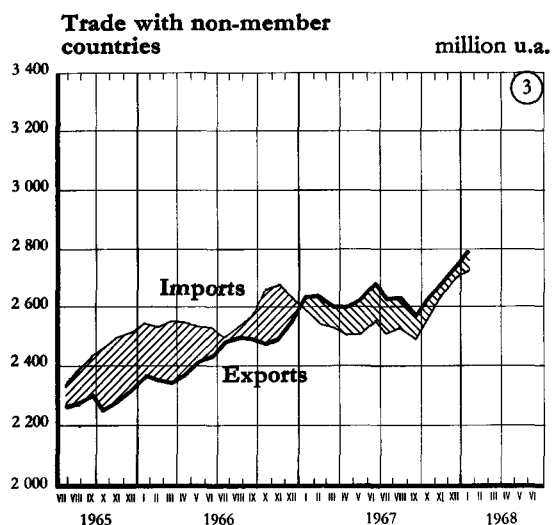
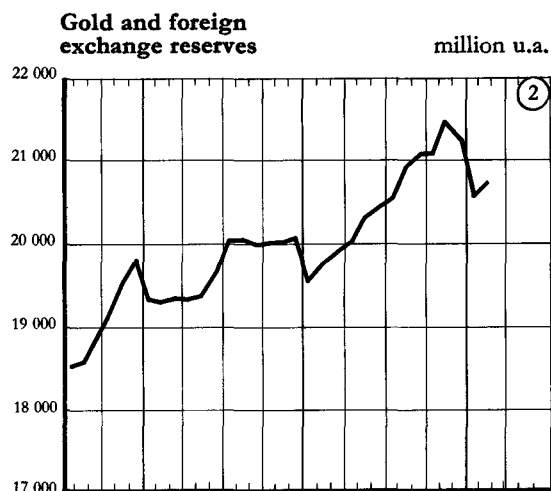
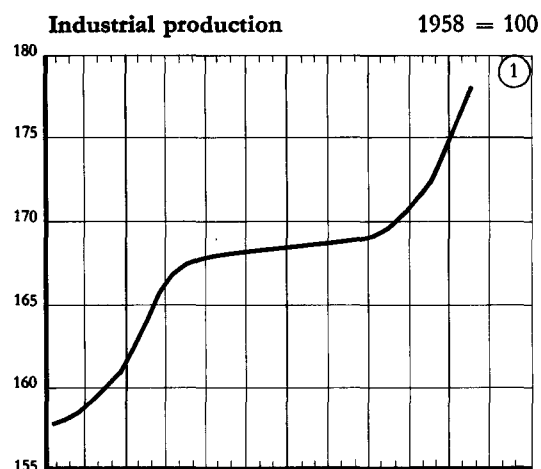
A detailed analysis of the economic situation around the middle of the year will have to show at what pace internal demand has been

expanding, what effects this has had on the balances of payments of the member countries and to what extent the Community balance of payments has begun to react to the devaluations and the UK and US balance-of-payments measures. By that time it should also be possible to assess more accurately the longer-term effects of these external factors. It will also have to be estimated how far their influence allows of balanced growth in the Community and what policy changes might be called for.

It can, however, already be stressed that, given its balance-of-payments and the level of its foreign exchange reserves, the Community has appreciable scope for action to form an independent centre of economic activity. Its freedom in this respect would be even greater if the Member States succeeded in concerting their monetary policies more fully. A policy designed to support economic growth and, if necessary, to spur it on, as is recommended by the Commission and the Council, is also likely to contribute to a more balanced development of international payments.

This will, of course, also depend in large measure on the effectiveness of the measures introduced in major non-member countries to curb the expansion of domestic demand: to the extent that these measures did not yield the desired results, export demand would make a further contribution to internal economic activity in the Community and the deterioration of the Community's current account would be less than expected. If this were to happen, the Community could in the fairly near future once again find itself in a situation where the need to maintain internal stability would necessitate a more cautious policy without payments equilibrium having yet been achieved.

ECONOMIC INDICATORS



NOTES :

Source : Statistical Office of the European Communities.

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2. Total gross reserves of gold and foreign exchange held by the monetary authorities of the Community countries at the end of each month.

Graph 3. Three-month moving averages of the seasonally adjusted value of exports to non-member countries (fob) and imports from these countries (cif), as shown by customs returns.

Graph 4. Three-month moving averages of the seasonally adjusted value of trade between EEC countries, as shown by customs returns for imports.

u.a. : one unit of account = 0.888671 g of fine gold = US \$1 at the official exchange rate.

TABLE 1 : Basic data 1966

Total area ('000 sq. km.)	1 167.5
Total population ('000)	183 315
Density of population per sq. km.	157
Numbers in employment ('000)	74 530
Numbers in employment, breakdown by main sector (%):	
— Agriculture	16
— Industry	44
— Services	40

TABLE 2 : Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966	1966	1966
Gross Community product	7.7	5.4	5.6	4.4	5.9	4.6	3.9	152	—
Industrial production	12.3	6.7	6.3	5.2	7.0	4.6	5.0	167	—
Visible imports	20.5	5.5	11.2	10.7	7.3	5.1	6.5	197	—
Private consumers' expendi- ture	6.2	6.2	6.3	6.0	4.4	4.4	4.3	150	61
Gross fixed asset formation	10.4	10.1	7.1	5.4	8.3	3.2	3.3	172	23
Visible exports	11.1	3.2	0.8	3.8	9.6	10.8	8.5	178	—
Intra-Community visible trade	22.0	14.5	13.8	16.2	13.5	11.9	10.9	324	—
Gross product per capita	6.7	4.4	4.2	3.3	4.7	3.5	2.9	139	—

TABLE 3 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1966	162	167	170	173	173	175	158	133	170	173	178	172
	1967	164	169	171	174	172	175	158	133	173	179	186	184
	1968	174				-							
Imports from non-member countries (cif, million u.a.)	1966	2 522	2 375	2 789	2 524	2 566	2 626	2 418	2 295	2 605	2 687	2 631	2 675
	1967	2 607	2 392	2 610	2 515	2 564	2 654	2 366	2 376	2 444	2 620	2 784	2 837
	1968	2 696	2 606										
Exports to non-member countries (fob, million u.a.)	1966	2 153	2 179	2 567	2 372	2 451	2 485	2 505	2 226	2 460	2 626	2 527	2 849
	1967	2 563	2 413	2 678	2 681	2 595	2 721	2 543	2 358	2 525	2 918	2 763	2 876
	1968	2 781	2 771										
Balance of trade (million u.a.)	1966	- 369	- 196	- 222	- 152	- 115	- 141	+ 87	- 69	- 145	- 61	- 104	+ 174
	1967	- 44	+ 21	+ 68	+ 166	+ 31	+ 67	+ 177	- 18	+ 81	+ 298	- 21	+ 39
	1968	+ 85	+ 165										
Intra-Community trade (million u.a.)	1966	1 667	1 790	2 091	1 861	1 903	1 968	1 852	1 696	1 960	2 015	1 977	2 013
	1967	1 925	1 861	2 145	2 002	1 974	2 099	1 913	1 734	1 956	2 245	2 182	2 126
	1968	2 123	2 162										

NOTES

Source : Statistical Office of the European Communities.

Table 1

- Total population at mid-year.
- Numbers in employment at mid-year.

Table 2

- The final column of the table gives a % breakdown of GNP at market prices by main categories of expenditure. The calculation of the Community's GNP has been made on the basis of official exchange rate.
- Industrial production: index of the Statistical Office of the European Communities, excluding construction, food, beverages and tobacco.
- Imports of goods (cif) from countries which are not members of the EEC, as shown by customs returns.
- Exports of goods (fob) to countries which are not members of the EEC, as shown by customs returns.
- Trade between EEC member countries, as shown by customs returns relating to imports.

Table 3

- See note to Table 2.
- Conversion into units of account was effected at official exchange rate (1 unit of account = 0.888671 g of fine gold = US \$1 at the official exchange rate).

Council Recommendation of 9 March 1968

to the Member States
on the guidelines for short-term
economic policies in 1968

The Council of the European Economic Community,

Having regard to Article 103 of the Treaty establishing the European Economic Community,

Acting on a proposal of the Commission,

Having regard to the Council Recommendation of 11 July 1967 to the Member States on the guidelines for short-term economic policies during the second half of 1967 and the first measures to be taken for 1968,¹

Considering that this recommendation should be adapted and expanded in order to take into account what is being done, and the changes which have occurred in the economic outlook, particularly following the devaluation of certain currencies and the concurrent introduction of restrictive policies, and the first steps taken in the US plan for improving its balance of payments,

Recommends the Member States to observe the following guidelines for their short-term economic policies in 1968:

1. From the middle of 1967, economic activity picked up in those Community countries where there had previously been a more or less marked slackening. The seasonally-adjusted rise in prices and unit costs has tended to level off.

Conditions likely to encourage a spontaneous recovery were created by measures taken in 1967 by most of the Member States. Complementary measures to the same end were taken at the beginning of 1968 in Belgium and France.

2. In the coming months, action should be taken to ensure that the level of growth will be such that manpower and technical resources can be fully used in conditions allowing maximum productivity. The action taken must be adapted to the economic situation of each Member State.

Although in most of them price trends are not completely satisfactory, care must be taken to safeguard an incipient tendency towards stabilization. In such a case any action in support of economic activity taken in the field of investment, or, if need be, consumption, should be mainly in the form of selective short-term measures.

3. The November 1967 devaluations in non-member countries, the restrictive policies accompanying them and the first steps taken in the USA programme for improving its balance of payments risk, in the months ahead, diminishing the supply of capital in the Community's financial markets at the same time as increasing demand.

Should this happen, Member States will have to try to stabilize the level of their interest rates, in order to achieve the expansionary aims referred to earlier.

An effective policy in this sphere would be all the easier to apply if it were part of concerted action taken by the Member States. This action should from now on aim at avoiding within the Community divergent trends in these rates.

The pursuit of these aims in countries with marked balance-of-payments surpluses should help to achieve a better external equilibrium. Countries where payments are at present more or less balanced should, while pursuing a policy of economic expansion, accept a trend which

¹ Official gazette No. 159, 18 July 1967, p. 6.

might be reflected in a slight deficit on their external payments, provided their economic stability is not upset.

4. If during the second half of the year imports and investment by enterprises should be affected by the external factors just referred to and cause a slowdown of economic activity in the Community, this trend should be countered in good time by a concerted effort to keep up the expansion of aggregate demand by suitable measures in the investment field and—for some States—in connection with private consumption. As these measures would have to be applied very quickly, monetary policy and budget policy would assume particular importance and so should be kept as flexible as possible.

5. If however economic expansion in the Community appeared to be too vigorous in the second half of the year, care would have to be

taken to avoid any strains which might endanger rapid and balanced growth.

In such a case, the increased revenue from taxation should be used to reduce budget deficits, and increases in public expenditure should be avoided, particularly operating expenses. Prices and costs would need to be watched more closely.

6. Care would also have to be taken that any counter-cyclical measures found necessary did not endanger or slow down the effort being made to rationalize the structure of the central budgets and local government budgets, an effort which must be pursued without interruption.

7. The Council proposes that towards the middle of the year the economic situation in the Community and the outlook should be examined so that fresh guidelines for the carrying out of points 4 and 5 could be laid down.

II. THE SITUATION IN EACH OF THE COMMUNITY COUNTRIES

A. Federal Republic of Germany

The economy of the Federal Republic of Germany is at present definitely expanding vigorously; the upswing got underway because of official measures to spur on activity, but it has since been kept going by strong upward tendencies inherent in the economy itself. Not only have firms started building up stocks, but a rapid change has also taken place in the trend in industrial expenditure on fixed assets. In contrast to this expansion, the increase in private consumption has, however, continued to lag somewhat behind—although, here too, with the progressive improvement in the employment situation, favourable conditions for a rapid and lasting recovery have been created.

Domestic production is once again forging ahead. Imports, too, have been rising very rapidly for some time. The price climate has remained relatively calm—although at the beginning of the year the changeover to the tax on value added entailed considerable adjustments in the pattern of prices and, in particular, a perceptible increase in the level of consumer prices.

In view of the strong inherent drive of the internal forces which are making for growth, it can now be taken as certain that the economic revival will continue. For 1968 the increase in the real gross national product will exceed 4 % and reach about 5 %.

For those in charge of economic policy, this means that later on in the year more care may perhaps again have to be taken to keep costs and prices stable, so that rapid and balanced growth can be maintained over a long period.

1. Recent developments

In the early months of 1968 the new upsurge of activity made major gains. Meanwhile, the expansionary forces inherent in demand have had a very strong influence on industrial production and building and construction.

In contrast to experience in the past, when the key to the revival was export demand, the decisive factor this time was the reversal of the trend of expenditure on stocks and fixed assets. The fairly marked revival of visible exports, which is linked with the progressive recovery of the business situation in important purchasing countries, is however providing substantial support for economic activity in general.

The rapid strengthening of the propensity to invest in the last few months, originally stimulated by the active economic policy of the Federal Government and by the expansionary measures taken by the Bundesbank, was increasingly due to factors inherent in the economy itself, particularly the steady improvement in firms' sales and profit expectations. In the fourth quarter of 1967 new domestic orders in the capital goods industries (seasonally adjusted) had already regained the high level of 1965; compared with their lowest level, recorded in the first quarter of 1967 during the recession, the increase was no less than 35 %. Since then, the position as regards orders has improved further, despite the fact that some special circumstances no longer obtain—tax privileges in respect of

depreciation have, for example, been discontinued. In addition, there has recently been an appreciable increase in building orders placed by firms, as also in the number of plans for public building and the number of permits for residential construction. This advance in orders has meanwhile led to a marked reversal of the trend in actual expenditure on gross fixed asset formation: expenditure on plant and machinery is again forging ahead, as is shown for example by the strong expansion of domestic turnovers in mechanical engineering, and expenditure on building and construction, the growth of which was for a time hampered by exceptionally bad weather in the winter months, has been rising steeply since the beginning of the spring.

The reversal of the trend in investment in stocks has also done much to expand business activity of late. In the fourth quarter of 1967, firms in some industries began to reconstitute their stocks, which had fallen sharply during the period of recession; there now seems to be a general tendency for firms to build up stocks again, following the changeover to the added-value tax system and the consequent establishment of a new price structure.

Private consumers' expenditure, on the other hand, has not so far made any very marked contribution to the expansion of economic activity in general. At all events, retail turnovers in the last few months indicate no more than a slight advance in this demand component. The upward trend in incomes does not yet appear to have gained much strength. Although the number of persons in paid employment and the average number of hours worked have recently (apart from variations) gone up, the expansion of production has so far been mainly due to the utilization of existing reserves of productivity: in industry, particularly, the increase in output per man hour has been exceptionally large. In addition, the trend in agreed hourly wage rates has remained relatively settled. Moreover, a fairly high level of seasonal unemployment helped to slow down the development of incomes for a time during the winter months.

In the building industry, particularly, allowance should be made for the fact that the bad weather at the end of 1967 and the beginning

of 1968 made work impossible on more days than in the previous year. Subsequently, however, the underlying tendencies towards a progressive decline in unemployment and an increase in the number of vacancies again became clearly apparent on the labour market. By the end of February, the number of unemployed had fallen to 589 700—83 900 fewer than at the same time last year—while the number of vacancies was higher than it had been a year earlier. According to the seasonally adjusted figures, there were at the end of February more vacancies than persons seeking employment: this was the first time this had happened for a year.

The fact that the recovery has now spread fairly widely throughout the economy is shown, above all, by the vigorous increase in industrial output. According to the national index (seasonally adjusted), it went up by about 6.5 % in the fourth quarter of 1967 compared with the third. Thus, if seasonal variations are discounted, industrial production had already surpassed the previous peak. Although the increase became somewhat less rapid in the following months, when certain special factors were no longer operative, underlying progress was nevertheless steady and the upward trend quite strong.

In addition, imports have been rising perceptibly faster since last autumn. Towards the end of 1967, purchases ahead of the introduction of the tax on value added were of course also of some importance here; nevertheless, the statistics for the first few months of this year clearly show that the vigorous rise in imports or raw materials and semi-manufactures was mainly due to the growth of production and to the tendency for firms to build up stocks, whereas the increase in imports of finished goods was largely determined by the expansion of investment.

The monetary situation favoured the progressive development of the economic recovery. The banks' liquidity position was improved by the large quantities of foreign currencies which continued to flow in from abroad and by the central authorities' extensive cash deficits. The banks were able to reduce their rediscount commitments considerably and, in addition, invested on the Euro-currencies market. At the same time, with short-term interest rates still relati-

vely low, the demand for credit in trade and industry increased appreciably.

On the stock market, considerable quantities of investment capital were mobilized by the

temporary but very sharp rise in quotations in the early months of the year. On the other hand, the market in fixed interest securities remained sluggish; here, interest rates tended, if anything, to go up slightly.

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ¹		1968 ²
	At current prices (in DM '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume 4
Exports ³	91.4	+ 10.8	+ 12.7	+ 9.2	+ 7.5	+ 6.5
Gross fixed asset formation	118.9	+ 0.2	+ 2.5	— 7.7	— 9.8	+ 7
Public current expenditure on goods and services	69.7	+ 1.0	+ 8.2	+ 3.2	+ 6.5	+ 2
Private consumers' expenditure	255.7	+ 3.5	+ 7.5	+ 0.6	+ 2.4	+ 2
Gross national product	452.7	+ 2.3	+ 6.2	— 0.1	+ 0.6	+ 5
Imports ³	92.0	+ 2.7	+ 4.9	— 0.4	— 1.9	+ 10.5

¹ Federal Statistical Office, "Wirtschaft und Statistik", No. 2/1967.

² Commission forecasts.

³ Goods, services and factor income.

⁴ At preceding year's prices.

Notes :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with the experts of the member countries but are established and published on the sole responsibility of the Commission.

2. Outlook

At the beginning of spring, the outlook for the remainder of the year seems even better than it did at the end of 1967.¹ The internal factors making for expansion have meanwhile acquired considerable momentum of their own, so that the upsurge of activity can now be regarded as certain to continue. This being so, the increase

in the real gross national product in 1968 compared with 1967 should exceed 4 % and reach about 5 %.

In view of the strength of the forces favouring recovery inherent in the economy, there appears

¹ See the remarks on this subject in Quarterly Survey No. 4/1967.

to be little danger that the present phase of fairly vigorous growth will be impaired by external influences stemming from the world economic situation and international capital movements. For the year as a whole, the growth rate for exports may well again be substantial. Moreover, there are good reasons for believing that the favourable effects that the economic upswing in the Federal Republic of Germany will have on the other Community countries will—by improving export potential—also prove beneficial to the German economy later on in the year.

The vigorous upward trend in domestic demand, which can be expected to continue in the coming months, will at first still depend mainly on increased investment. In addition to a further rapid adjustment of stocks to turnovers, there is likely to be, in particular, a substantial extension of building activity. The requirements governing any noteworthy acceleration of expenditure in this field have been met even more fully in recent months, because the (admittedly incomplete) information at present available suggests that the local authorities, who are the principal public investors, will probably tend to increase their expenditure on building and construction more in the course of this year. In addition, with sales prospects improved and industry running nearer capacity, firms are also almost certain to revise their investment plans in an upward direction, all the more since financing is not expected to cause any difficulties: the cash situation of firms will be enhanced *inter alia* by the fact that from February 1968 onwards they will gain a total of about DM 4 500 million because tax will no longer be charged on old stocks; furthermore, profitability should continue to improve and, lastly, there will certainly still be abundant funds available from outside sources at relatively attractive interest rates.

From the middle of the year onwards, expenditure on private consumption should become another important factor making for expansion. With the growth of productivity gradually leveling off, there are then likely to be not only an appreciable rise in the number of persons in paid employment but also considerable increases in agreed hourly wage rates and a faster wage drift. Furthermore, the amounts withdrawn

from their businesses by self-employed persons will probably rise sharply.

In the coming months, demand—in general very dynamic—will continue to be matched by fairly elastic domestic supply. At the moment, there appear to be adequate resources of capacity and manpower available to ensure smooth and rapid growth. But the possibility that new strains may develop later on in the year—at least in some individual industries—cannot be ruled out. In the present circumstances, these will probably first become apparent on the labour market, where the supply of domestic manpower might quite soon prove inadequate and where the maintenance of equilibrium will then depend on the scope for employing foreign manpower. There is much less reason to fear overloading of technical capacities in the foreseeable future. In industry, firms have, to be sure, taken up a lot of slack in recent months, and here and there the increase in the number of orders in hand has already forced some of them to start quoting later delivery dates once again, but it should be possible on the whole for industry to continue expanding production rapidly; considerable reserves of capacity are also still available in the building industry, where the wave of new orders induced by the Government's second programme to stimulate the economy is one factor among several suggesting that building activity will make strong gains from the spring onwards.

Some of the additional overall demand will, moreover, benefit other countries, especially those in the Community. In the fourth quarter of 1967, the economy of the Federal Republic of Germany had already ceased to inhibit international business activity and was increasingly helping to expand it. Imports will certainly continue to climb steeply and eat into foreign trade surpluses—although these should still remain high because of the considerable discrepancy that still exists between the level of imports and that of exports.

The outlook for the demand/supply relationship suggests that prices might gradually lose the stability achieved in 1967. Already at the beginning of 1968, the changeover to the tax on value added system led to an appreciable rise in the general price level; the increases in tax rates planned for the middle of the year

will push prices up further, especially in the field of private consumption. In addition, some factors which, on the supply and cost side, have hitherto helped to keep prices down might prove less effective in the second half of the year, whilst at the same time the faster growth rate expected for demand will offer scope for wider profit margins.

This means that later on in the year those in charge of short-term policy will probably have to pay more attention once again to maintaining price stability, and precautions will have to be taken to counteract inflationary strains as far as possible as soon as they appear. The need for a consistent policy of controlled expansion will therefore grow as the forces making for expansion regain their inherent vigour.

At first, however, the task of consolidating the gains made will still merit some degree of priority. In particular, those in charge of monetary and credit policy ought perhaps to aim even more than before at bringing down the still relatively high level of interest rates and making the most of the opportunities which are still available—at the international level as well as at home—for bringing interest rates closer in line with economic-policy desiderata. These efforts should be accompanied by a public debt policy designed to relieve the capital market of considerable pressure. This means, however, that budget deficits will still have to be financed very largely by recourse to the money markets, since the demand for credit in 1968, particularly on the part of the central government, is certain to match the exceptionally high level of 1967. In the short term, money-market financing of deficits of the size envisaged would still be tolerable in the interests of internal stability. In the longer term, however, the efforts being made to improve the general framework of public finances ought to be intensified substantially, as part of arrangements to maintain and adjust medium-term budget planning year by year; such measures could perhaps usefully include effective steps to slow down the growth of expenditure.

3. The economic situation in West Berlin

In 1967 the slowdown in business activity was rather more marked in Berlin than in the Federal area. The Berlin "GNP" in real terms fell by

a good 1 %, the lowest point of the recession being reached in the third quarter; since then the Berlin economy has come nearer to the general economic revival in the Federal Republic.

The trend of visible exports mirrored the weakness of the economic situation in the Federal Republic. For example, deliveries to the Federal area in 1967 were up by only 3.1 % on the 1966 figure. On the other hand, visible exports to other countries rose by about 9 %, thus providing appreciable support for both production and employment in Berlin.

Overall gross fixed asset formation declined in 1967 compared with 1966. This was due solely to the substantial reduction in expenditure on plant and machinery (by 8.5 % in volume), for expenditure on building and construction continued to rise, although more slowly than before. In the second half of the year, however, a fresh upward movement began to develop, and this was also reflected in expenditure on plant and machinery.

Private consumers' expenditure, which at the beginning of 1967 was still making a fairly substantial contribution to expansion, tended later on in the year to fall off more sharply than in the Federal area. Although transfer incomes went up especially sharply last year, this did not completely offset the slower growth of wages and salaries.

On the labour market, the increase in unemployment (apart from variations) remained within fairly narrow limits because building activity was comparatively brisk. The unemployment rate was noticeably lower than in the Federal area—at the end of December it stood at 1.8 % of all wage- and salary-earners. Only about 8.5 % of the persons then unemployed in Berlin came from the building trades (as against almost 20 % in the Federal Republic), but metal-processing workers accounted for nearly 20 % of all unemployed and administrative and clerical workers about 14 % (compared with 11 % and 6 % respectively in the Federal area).

Industrial production for 1967 was 4.6 % down on 1966, but towards the end of the year there

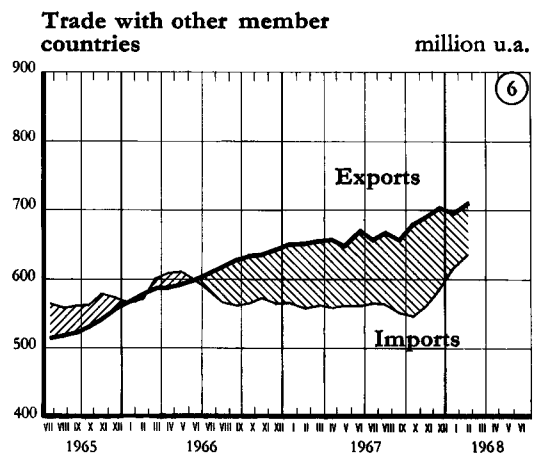
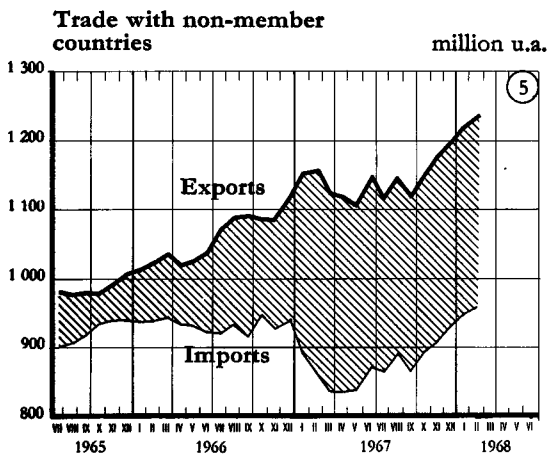
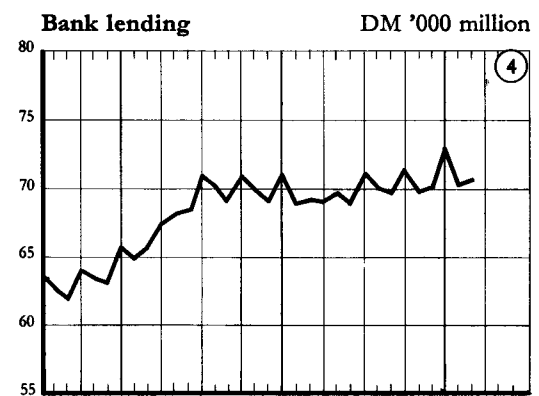
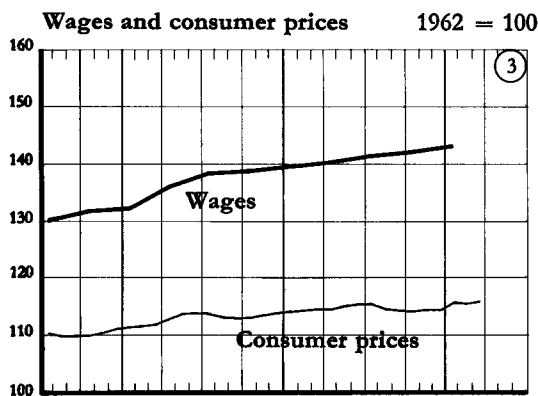
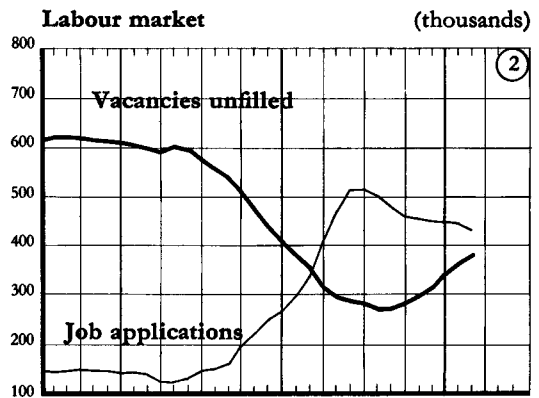
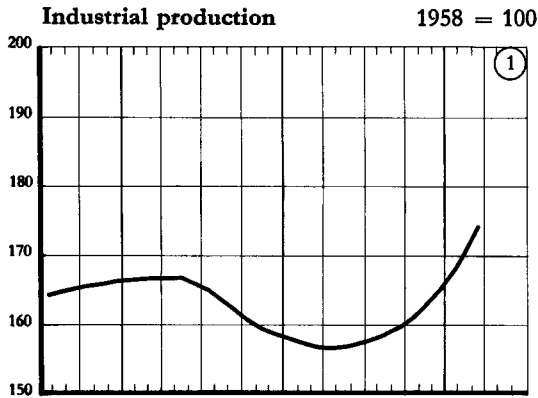
was a fairly marked recovery. This was the case, particularly, in mechanical and electrical engineering, which together account for about 35 % of all Berlin's industrial output. The sales position in the clothing industry has also improved recently.

The outlook for the coming months suggests a progressive improvement in the business situation. In manufacturing industry, the number of new orders, which had fallen by an average of 2.4 % in 1967, was 10 % higher in the fourth quarter than in the same period of 1966. Since demand from the Federal area is again rising and the number of orders placed by the public authorities remains high, Berlin's economy should, during the course of 1968,

gradually achieve the same growth rate as in the Federal area.

In order that the longer-term propensity to invest may continue to gain strength, clear information is needed as soon as possible as to the future form of measures to stimulate Berlin's economy further. As for general economic policy, the extension of the Law on aid to Berlin, which expires at the end of 1969, will provide an opportunity for adjusting the aid arrangements, while maintaining the present level of preference, in such a way as to produce a qualitative improvement in Berlin's economic structure in the fairly long term—an improvement which is also desirable for reasons of short-term economic policy.

ECONOMIC INDICATORS



NOTES :

Source : Statistical Office of the European Communities (except as otherwise indicated).

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2 : Trends, based on series adjusted for seasonal variations.

Graph 3. Source : Statistisches Bundesamt. Cost-of-living index at middle of month; index of average hourly gross earnings in industry (including construction).

Graph 4. Short-term loans to business and private customers within the country.

Graphs 5 and 6. Series adjusted for seasonal variations (Three-month moving averages). Exports fob, imports cif. Conversion at official exchange rate.

u.a.: one unit of account = 0.888671 g of fine gold = US \$1 at the official exchange rate.

Federal Republic of Germany

TABLE 1: Basic data 1967

Total area ('000 sq. km.)	248.5
Total population ('000)	59 873
Density of population per sq. km.	241
Numbers in employment ('000)	26 292
Numbers in employment, breakdown by main sector (%)	
— Agriculture	10.6
— Industry	48.4
of which : Construction	8.1
— Services	41.0
Percentage share of gross domestic product	
— Agriculture	5.1
— Industry	49.4
of which: Construction	7.7
— Services	45.5
Gross product per capita (DM)	8 077

TABLE 2: Key indicators

	% change by volume on preceding year								Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966	1967	1967	1967
Gross national product	8.8	5.4	4.2	3.4	6.6	5.6	2.3	— 0.1	152	—
Industrial production	10.7	6.3	4.5	2.7	8.5	6.7	1.9	— 2.2	158	—
Total imports	16.9	8.1	11.4	8.0	10.7	15.0	2.8	— 0.4	232	19.6
Private consumers' expendi- ture	6.9	6.8	5.9	2.9	5.3	6.3	3.5	0.6	153	58.2
Public current expenditure on goods and services	7.6	7.8	11.5	7.5	— 0.5	6.9	1.1	3.2	168	16.6
Gross fixed asset formation	11.3	9.4	5.9	2.9	12.0	6.5	0.2	— 7.7	165	22.7
Total exports	13.0	3.5	3.9	9.0	9.6	7.2	11.0	9.2	212	22.9
Gross national product per capita	7.7	4.0	2.8	2.2	5.3	4.3	1.2	— 0.5	138	—
Gross national product per person gainfully employed	7.0	4.0	3.4	3.0	6.2	4.9	2.6	2.9	148	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.s.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	11.1	4.5	10.2	10.9	10.3	12.5	8.0	247	21 736	100
Intra-EEC	19.6	20.9	20.8	8.4	6.7	16.0	9.4	333	8 002	36.8
To non-EEC countries	7.6	1.0	4.7	12.5	12.4	10.6	7.2	215	13 734	63.2
Exports of food, beverages and tobacco										
Total	4.3	7.3	16.0	20.5	25.0	- 2.0	27.0	296	541	2.5
Intra-EEC	1.0	8.1	23.9	22.1	22.6	6.6	61.2	436	285	1.3
To non-EEC countries	6.3	6.9	11.5	19.5	26.6	- 7.3	2.7	218	255	1.2
Exports of raw materials and manufactures										
Total	11.3	4.5	10.1	10.8	10.0	12.9	7.5	246	21 195	97.5
Intra-EEC	20.1	12.2	20.8	8.1	6.3	16.3	8.1	330	7 717	35.5
To non-EEC countries	7.6	0.9	4.6	12.3	12.1	11.0	7.2	214	13 478	62.0
Visible imports										
Total	8.3	12.2	6.0	12.2	19.6	3.2	- 3.7	236	17 352	100
Intra-EEC	13.3	16.6	8.7	17.4	30.7	4.2	- 1.1	362	6 864	39.6
From non-EEC countries	6.1	10.3	4.7	9.7	13.6	2.5	- 5.4	192	10 488	60.4
Imports of food, beverages and tobacco										
Total	7.9	20.1	- 8.3	8.3	21.6	2.4	- 4.2	184	3 582	20.6
Intra-EEC	15.8	15.9	- 0.0	9.3	23.0	6.8	0.1	286	1 442	8.3
From non-EEC countries	4.4	22.2	- 12.2	7.8	13.1	- 0.1	- 6.9	149	2 140	12.3
Imports of raw materials and manufactures										
Total	8.4	9.9	10.7	13.3	19.0	3.3	- 3.6	254	13 769	79.4
Intra-EEC	12.5	16.8	11.5	19.7	31.3	3.5	- 1.4	389	5 422	31.3
From non-EEC countries	6.7	6.8	10.3	10.2	12.5	3.2	- 5.0	207	8 347	48.1

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1966	151	156	162	168	167	168	153	142	162	166	169	156
	1967	144	149	153	158	158	157	149	138	161	168	176	174
	1968	152	159										
Unemployed (1000)	1966	269	236	141	121	108	101	102	106	113	146	216	372
	1967	621	674	576	501	458	401	377	359	341	361	395	526
	1968	673	590	460									
New orders received (1958 = 100)	1966	173	178	216	193	193	188	176	170	192	192	183	169
	1967	160	162	187	176	179	190	171	170	194	216	207	195
	1968	184	189										
of which:													
home orders	1966	163	170	208	186	185	178	169	161	184	181	169	150
	1967	144	145	171	163	165	171	160	158	182	206	192	173
	1968	163	171										
foreign orders	1966	211	213	250	227	230	234	207	208	232	243	248	255
	1967	229	239	260	237	243	277	227	223	249	261	271	291
	1968	274	269										
Construction: permits issued (DM '000 million)	1966	2.95	2.97	4.00	3.75	3.85	4.03	4.15	4.03	4.04	4.13	3.33	3.47
	1967	2.76	2.68	3.11	3.50	3.32	3.69	3.78	3.60	3.70	4.35	3.88	3.13
	1968												
Private consumers' expenditure: Retail turnover, value (1958 = 100)	1966	147	147	179	179	176	165	177	162	168	182	194	242
	1967	155	148	181	171	174	172	174	165	171	181	195	259
	1968	152	151	178									
Total visible imports (million u.s.)	1966	1 446	1 397	1 685	1 476	1 541	1 544	1 478	1 449	1 482	1 607	1 530	1 533
	1967	1 393	1 276	1 442	1 406	1 403	1 556	1 401	1 408	1 414	1 579	1 613	1 653
	1968	1 553	1 538	1 659									
Total visible exports (million u.s.)	1966	1 492	1 490	1 757	1 559	1 701	1 645	1 708	1 537	1 727	1 809	1 719	2 012
	1967	1 750	1 629	1 816	1 867	1 724	1 884	1 726	1 654	1 791	1 989	1 906	2 025
	1968	1 860	1 862	2 102									
Balance of trade (million u.s.)	1966	+ 46	+ 93	+ 72	+ 88	+ 160	+ 101	+ 230	+ 88	+ 246	+ 201	+ 189	+ 479
	1967	+ 357	+ 352	+ 373	+ 461	+ 321	+ 327	+ 325	+ 246	+ 377	+ 410	+ 292	+ 372
	1968	+ 316	+ 324	+ 443									
Official gold and foreign exchange reserves (million u.s.)	1966	6 190	6 139	6 150	6 072	5 974	6 193	6 441	6 433	6 454	6 616	6 652	6 771
	1967	6 490	6 684	6 759	6 723	6 759	6 702	6 639	6 690	6 808	6 737	6 914	6 853
	1968	6 486	6 749	7 030									
Money supply (DM '000 million)	1966	74.0	74.5	74.2	75.9	76.9	77.7	77.3	77.7	76.7	76.5	79.3	79.5
	1967	74.4	76.3	75.6	77.0	77.6	78.7	79.3	79.7	80.2	80.5	84.2	87.8
	1968	81.5	81.3										

Federal Republic of Germany

NOTES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Table 1

- Total population. Average for year (estimate).
- Numbers in employment. Average for year (estimate); the breakdown by main sector is for 1966. Source : Statistisches Bundesamt.
- Shares industries in gross domestic product at factor cost (1966); industry including small workshops. Source : Statistisches Bundesamt.
- Gross national product at market prices.

Table 2

- Changes based on 1958 prices; for 1967, however, the base- year is 1954.
- Gross national product at market prices.
- Industrial production: value added at market prices (incl. small non-shops).
- Total exports and imports: goods, services and factor income.

Table 3

- Exports fob, imports cif. Conversion at official exchange rates. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST) : food, beverages and tobacco (Groups 0 and 1 CST), raw materials and manufactures (Groups 2-9 CST).

Table 4

- Industrial production. Source: Statistisches Bundesamt. All industries, including construction, adjusted for varying length of months.
- Unemployed: Position at end of month; not adjusted for seasonal variation. Source: Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung.
- New orders. Source: Statistisches Bundesamt. Unadjusted index (value) for manufacturing industry (excluding foodstuffs); value index (calendar months).
- Construction. Source: Statistisches Bundesamt. Building permits, estimates of construction costs (excluding civil engineering).
- Private consumers' expenditure. Source: Statistisches Bundesamt. Index of value of retail of trade turnover; value index.
- Exports fob, imports cif. Conversion at official exchange rate. Source: Statistisches Bundesamt.
- Official gold and foreign exchange reserves. Bundesbank's gross reserves of gold and convertible currency at end of month.
- Money supply. Notes and coin in circulation, excluding cash holdings of credit institutions. Sight deposits of non-banks and of private residents (excluding public authorities' deposits with the Bundesbank). End-of-month figures.

B. France

The revival of business activity which began at the end of the summer of 1967 made further progress in the early months of this year—mainly because of the vigour of export demand and of the very expansive implementation of the central government budget. Furthermore, with the employment situation becoming increasingly stable and disposable incomes rising a little more rapidly, private consumers' expenditure tended to increase at a slightly faster pace.

Under these circumstances, there was steady expansion in both domestic production—particularly industrial production—and imports. Although the forces tending to raise prices remained relatively weak, the reform of the value-added tax system at the beginning of the year led to a substantial increase in the cost of living.

In order to consolidate the economic recovery, and in view of the existence of special factors liable to retard overall economic growth for a time, measures to boost both private consumption and investment were taken in the middle of January under a comprehensive short-term economic policy programme. Demand can therefore be expected to rise relatively quickly in the remainder of the year. To the extent that it does in fact do so, greater vigilance would however seem advisable in order to ensure that conditions remain favourable for the maintenance of internal equilibrium and that external equilibrium does not deteriorate unduly. In this connection, the key factor will be the handling of the budget in the second half of 1968.

1. Recent developments

The revival in general economic activity, which began in the summer months last year, was maintained at the end of 1967 and the beginning of 1968, the pace of advance being, if not very rapid, at least appreciable; the recovery was encouraged by the increased vigour of export demand and was supported by official measures designed, among other things, to mitigate rather negative effects that certain structural reforms were likely to have in the short term.

Export demand has been one of the most important factors making for expansion. Visible exports, particularly, which had already been picking up steadily since the spring of 1967, have shown a further and more rapid increase in recent months. From July 1967 to February 1968, their advance (apart from variations) was

equivalent to an annual growth rate of over 20 %; from the foreign trade statistics it appears that visible exports in January-February 1968 were 14 % up on the corresponding 1967 figure. The improved prospects for sales in the Federal Republic of Germany, where the economic recovery is now well under way, made a decisive contribution to this more rapid upward movement—after exports to Italy, the Netherlands and the Belgo-Luxembourg Economic Union had already been rising quite noticeably for some time. On the other hand, exports to non-member countries, especially to countries of the franc area and the other developing countries; tended to slow down somewhat; exceptions were the United Kingdom, the United States and some other countries.

The stimulating influence of export demand and the disappearance of certain inhibiting factors connected with the reform of the turnover tax

which took effect on 1 January 1968—such as retailers' reluctance to place orders for stocks—has done much to raise production and incomes in the last few months and thus ensure that economic demand continues to expand.

Although capital expenditure by the public authorities and public enterprises has continued to rise very vigorously since last autumn, the advance in gross fixed asset formation may nevertheless have been somewhat slower than before. It is not impossible—indeed the trend of new orders in the capital goods industries supports this view—that private investment has been marking time, following an upward movement which was particularly rapid in 1966 and remained so until well on into 1967.

The stockbuilding trend, on the other hand—the decline of which definitely helped to slow down business activity in 1967—probably levelled out in recent months and may even have begun rising again. In the retail trade, particularly—after the turnover tax reform which came into force on 1 January 1968—firms may now have begun to replenish depleted stocks.

Private consumers' expenditure, which was already picking up appreciably in the autumn of 1967, appears to have expanded more rapidly towards the end of the first quarter of 1968. The decisive factor here has probably been, first and foremost, a more favourable trend both in wages and salaries and in the amounts withdrawn from their businesses by self-employed persons, both trends being linked to increases in production and turnovers. Moreover, on 1 January 1968 the guaranteed minimum wage in trade and industry (SMIG) was raised by 3.26 % and that in agriculture (SMAG) by 3.8 %, and family allowances and old-age pensions were put up on 1 February 1968. It is true that gross incomes attracted varying levels of tax from month to month, owing to the influence of certain special factors, some of which cancelled each other out (higher social security contributions, tax cut of FF 100 on the income tax due for 1967, reduction of 15 % in the first third of income tax to be paid in advance for 1968). None the less, everything suggests that, on balance, the tendency towards a more pronounced upward movement in disposable incomes predominated. Lastly, the higher prices for certain items of private consumption, due either to the change in social security regu-

lations (prescription charges) or to the reform of the tax on value added (foodstuffs), sometimes entailed "autonomous" increases in expenditure which encroached on saving.

With export demand expanding more rapidly and domestic demand continuing to move upwards, the growth rate of industrial production has remained fairly steady in recent months: the seasonally adjusted INSEE index, which had gone up by 2 % in the fourth quarter of 1967 compared with the third, rose just as fast in the early months of 1968. The trend in building output, on the other hand, showed that the revival in residential construction was still mainly confined to state-subsidized housing—although the public authorities again stepped up their demand for building work considerably.

As substantial reserves of productivity were still available to accommodate increased output, the employment position in general showed only a small improvement. However, the average working week has probably lengthened slightly in the last few months, and the number of persons in paid employment also appears to have returned to a higher level of late. In any case, there is clear evidence—in the trend of unfilled vacancies and in that of the number of job-seekers—that a measure of stability is returning to the labour market.

The import trend has definitely been rising, mainly owing to increased demand for consumer goods but also to the need to re-adjust stocks of raw materials to the faster pace of output. In January-February 1968, the volume of merchandise imported—as shown by foreign trade statistics—was about 5 % up on the same 1967 figure.

Owing to the influence of certain special factors, the upward movement of consumer prices has become very much stronger in the last few months: the increases in the charges for various public utilities in the autumn of 1967, and in doctors' fees and prescription charges in November 1967, and the effects which the reform of indirect taxation at the beginning of 1968 had on retail prices, were the main factors behind a 2.4 % increase in the INSEE index (250 items) between September 1967 and January 1968—as against only 1.1 % between the same months of 1966/67. For January 1968 the year-to-year rise in the cost of living was 4 %. It should, however, be borne in

mind that the strong increase in prices in recent months has for the most part been due to events that will not recur and is not in any way the reflection of an underlying trend; on the contrary the inherent forces that tend to push prices up remained weak. Nevertheless, the increase in prices has been eroding appreciably the purchasing power generated by incomes.

With the more favourable trend in exports, the balance of trade continued to improve; at the beginning of 1968 (apart from seasonal factors) it was once again to all intents and purposes in equilibrium. Thus the tendency for the current account to improve, which was already apparent last year, probably persisted. The slight fall in the official gold and foreign currency reserves (gross) since the end of November 1967 is probably mainly due to the fact

that some of the capital which had flowed in in the autumn months of 1967 (because of international monetary developments) was subsequently withdrawn.

The trends in the development of domestic liquidity which were already apparent in the second half of 1967 and were analysed in detail in the last Quarterly Survey have shown no important change in recent months: apart from seasonal fluctuations associated with the dates on which tax payments fall due, Treasury transactions still did much to expand liquidity. The vigorous expansion of bank lending also continued. On the money market, there was some increase in rates for call money—mainly because of the international trend in interest rates—but intervention by the Central Bank kept this within very narrow limits.

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ²		1968 ³
	At current prices in FF '000 million	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	70.0	+ 6.9	+ 8.2	+ 5	+ 4.5	+ 7.5
Gross fixed asset formation	100.6	+ 6.2	+ 8.4	+ 7.5	+ 9.5	+ 6.5
Public current expenditure on goods and services	62.4	+ 3.4	+ 6.8	+ 5	+ 8.5	+ 5.5
Private consumers' expenditure	295.5	+ 4.9	+ 7.8	+ 4	+ 7	+ 4.5
Gross national product	464.7	+ 4.9	+ 7.7	+ 4	+ 7	+ 5
Imports ⁴	65.4	+ 11.1	+ 13.2	+ 5	+ 5	+ 10

¹ Statistical Office of the European Communities, National Accounts 1957-1966.

² Commission estimates .

³ Commission forecasts.

⁴ Goods, services and factor income.

Note :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
 (b) The estimates and forecasts are approximations based on certain hypotheses worked out by the Commission and generally mentioned in the Quarterly Surveys. They have been discussed with the experts from the member countries but are established and published on the sole responsibility of the Commission.

2. Outlook

Quarterly Survey No. 4/1967 predicted that the revival in overall economic growth, which began in the summer months of 1967, would continue and gather momentum in 1968, mainly as a result of a more homogeneous expansion of the various components of domestic demand and also because of the stimulating influence of export demand. This forecast still holds good. At the same time, however, attention was drawn to the danger that the trend might sometimes—particularly at the beginning of the year—diverge from the general upward movement, because important structural reforms, especially in the tax field, would be entering into force in 1968. For this reason, the authorities responsible were urged to consider adopting measures whose effect would be immediate but of limited duration, in order to spur on for a time the development of the disposable incomes of households; such action would ensure that, despite a considerable increase in the level of consumer prices caused by autonomous factors, the growth of private consumers' expenditure in real terms would not be unduly impaired.

The plan to boost economic activity announced by the Government in the middle of January 1968 is almost certainly based on this objective and also on the desire to obviate the dangers that may possibly arise, at international level, from the steps taken by the United Kingdom and the United States to improve their balances of payments.

The aim of the Government's plan is to support both private consumers' expenditure and investment. The effects of the measures to encourage consumption will be felt almost at once because they consist, essentially, in raising old-age pensions earlier than originally envisaged (by 12 % from 1 February instead of 1 October 1968), as also family allowances (by 4.5 % from 1 February instead of 1 August 1968), and in decreasing the first third of the advance income tax payment by 15 % in anticipation of a cut in taxation for 1968 that has still to be approved by the National Assembly. In addition, turnover taxes on meat were reduced substantially—by 40 %—with effect from 1 February. Taken together, these measures will deprive the central government budget of revenue totalling FF 1 410 million, by far the

greater part of the contribution to purchasing power—FF 1 260 million—occurring this year. The resulting increase in private consumers' expenditure can be estimated at about 0.3 % for the full year.

The impact of the measures to stimulate investment should, however, be felt only gradually during the coming months. In particular, more favourable transitional arrangements have been made to free certain capital goods from the tax on value added; in 1968 these should reduce tax revenue by about FF 800 million. In addition, a further FF 1 250 million has been earmarked for the Economic and Social Development Fund (FDES) to finance from the budget loans to public and private enterprises. Residential construction, too, will be encouraged by an improvement in the financing arrangements, by a reorganization and reclassification of the various categories and rents for state-subsidized housing, and by the construction of an additional 10 000 state-subsidized dwellings ("HLM").

All in all, this plan will provide a total of FF 4 400 million to spur on economic activity, and of this almost FF 4 000 million will be spent in 1968. The additional burden on the national budget in 1968 should amount to approximately FF 3 400 million—equivalent to about 0.6 % of the GNP. Consequently, the budget deficit, which was originally put at only FF 2 000 million in the 1968 Finance Act, is now expected to reach nearly FF 5 500 million. Allowing, in particular, for the utilization of credits left over from 1967, the deficit caused by implementation of the 1968 budget should prove to be no smaller than in 1967—when it was FF 6 500 million.

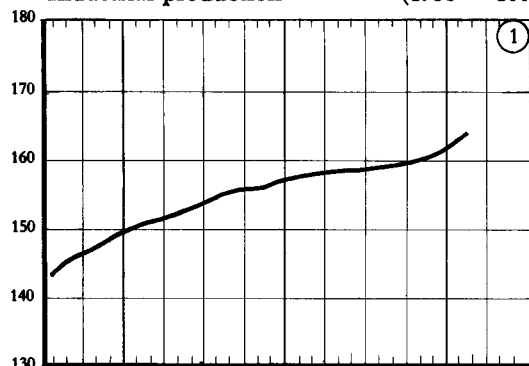
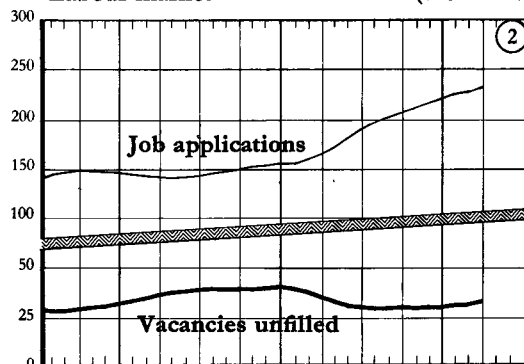
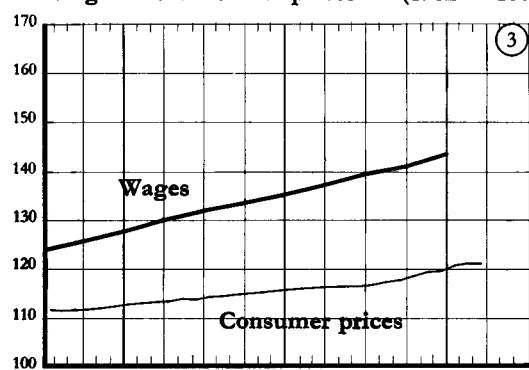
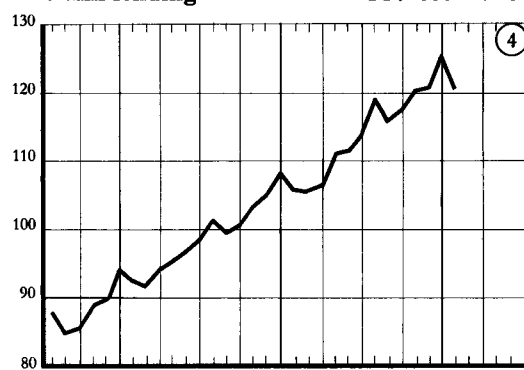
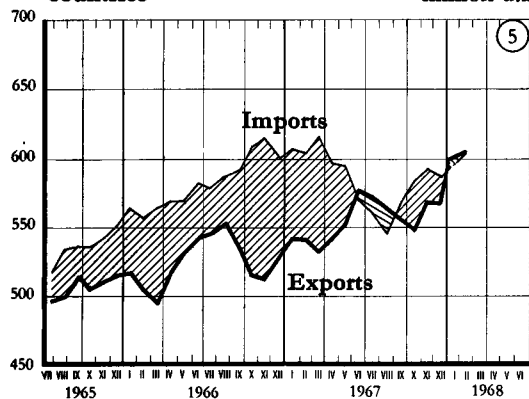
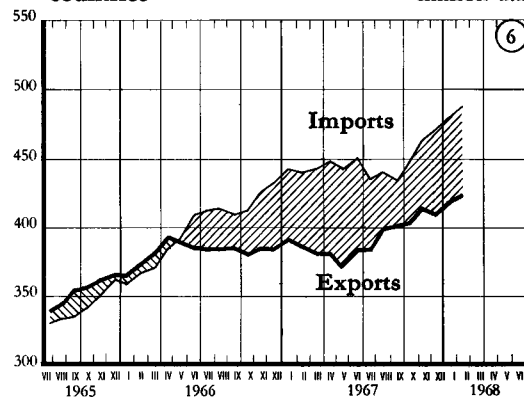
In view of the scale of the plan to support business activity which was launched in the middle of January 1968, almost all the uncertainties which made it difficult to forecast general economic development in the coming months have now been eliminated. Output should continue to rise and should be more dynamic in the remainder of the year, being stimulated both by the increasing amount spent by private consumers as a result of a more favourable trend in disposable incomes, and also by the stronger propensity to invest due to im-

proved sales and profit expectations. Some corrections must therefore be made to the quantitative forecasts for 1968 given in the last Quarterly Survey. In particular, the real GNP growth rate for 1968 could well exceed 4.5 % and is likely to reach 5 %.

The pace at which demand can be expected to rise in the remainder of the year suggests that greater vigilance will, however, be needed as regards the development of costs and prices. In this phase of the cycle, the key requirement is that conditions should be kept favourable for the maintenance of internal equilibrium and at the same time that any excessive deterioration in external equilibrium should be forestalled, so

that the economy can expand as rapidly as possible in the long run. Here, public budget policy ought to make a decisive contribution by doing no more than safeguard expansion in the remainder of the year—once the inherent forces making for expansion have regained sufficient strength. In particular, the higher tax revenues accruing should then be used to run down the Treasury deficit, which might otherwise become so heavy as to prove a severe handicap to the authorities when implementing economic-policy measures. The Council of the European Communities drew attention to this problem, among others, in its Recommendation of 5 March 1968 on the guidelines for short-term economic policies in 1968.

ECONOMIC INDICATORS

Industrial production (1958 = 100)**Labour market** (thousands)**Wages and consumer prices** (1962 = 100)**Bank lending** FF. '000 million**Trade with non-member countries** million u.a.**Trade with other member countries** million u.a.

NOTES :

Source : Statistical Office of the European Communities (except as otherwise indicated).

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2. Source : INSEE. Series seasonally adjusted. Three-month moving averages. End-of-month figures.

Graph 3. Source : INSEE. National index of consumer prices (259 items). Index of hourly wage rate, all activities, all regions.

Graph 4. Source : Conseil national du Cr dit. Short-term credits (up to 2 years) from monetary institutions to business and private customers. End-of-period figures.

Graphs 5 and 6. Series adjusted for seasonal variations (three-month moving averages). Exports fob, imports cif. Conversion at official exchange rate.

u.a. : one unit of account = 0.888671 g of fine gold = US \$1 at the official exchange rate.

France

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	551.2
Total population ('000)	49 275
Density of population per sq. km.	89
Numbers in employment ('000)	19 675
Numbers in employment, breakdown by main sector (%):	
— Agriculture	16.7
— Industry	39.9
of which : Construction	9.6
— Services	43.4
Percentage share of gross domestic product :	
— Agriculture	8
— Industry	41
of which: Construction	8
— Services	52
Gross product per capita (FF)	10 132

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966	1966	1966
Gross national product	+ 7.4	+ 4.4	+ 7.1	+ 4.8	+ 6.0	+ 4.5	+ 4.9	151	—
Industrial production	+ 7.6	+ 5.5	+ 6.7	+ 5.8	+ 7.4	+ 4.3	+ 5.8	155	—
Total imports	+16.5	+ 7.0	+ 8.7	+12.2	+12.2	+ 3.6	+11.1	193	14.8
Private consumers' expenditure	+ 5.6	+ 5.9	+ 6.9	+ 6.8	+ 4.7	+ 3.8	+ 4.9	148	63.7
Public current expenditure on goods and services	+ 2.7	+ 3.4	+ 4.3	+ 1.2	+ 4.9	+ 5.9	+ 3.4	137	13.3
Gross fixed asset formation	+ 6.8	+10.5	+ 7.9	+ 7.5	+11.7	+ 5.7	+ 6.2	175	21.8
Total exports	+17.2	+ 5.5	+ 3.1	+ 7.9	+ 7.7	+11.4	+ 6.9	198	15.1
Gross national product per capita	+ 6.3	+ 3.3	+ 5.1	+ 3.0	+ 4.7	+ 3.4	+ 3.8	136	—
Gross national product per person gainfully employed	+ 7.3	+ 4.4	+ 6.8	+ 3.5	+ 4.7	+ 4.5	+ 4.8	148	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	+ 5.1	+ 2.1	+ 9.8	+11.3	+11.8	+ 8.3	+ 4.5	222	11 377	100
Intra-EEC	+18.7	+12.0	+14.0	+12.8	+18.0	+12.0	+ 2.0	414	4 701	41.3
To non-EEC countries	- 0.6	- 2.9	+ 7.3	+10.3	+ 7.8	+ 5.8	+ 6.3	168	6 676	58.7
Exports of food, beverages and tobacco										
Total	+17.4	- 2.9	+22.0	+14.4	+11.4	+ 7.4	+ 3.0	266	1 769	15.5
Intra-EEC	+26.1	+ 1.4	+34.5	+16.6	+26.3	+19.4	+ 6.0	730	890	7.8
To non-EEC countries	+13.6	- 5.1	+15.4	+13.0	+ 2.0	- 2.0	0	162	879	7.7
Exports of raw materials and manufactures										
Total	+ 3.3	+ 3.0	+ 7.8	+10.7	+11.8	+ 8.5	+ 4.8	216	9 608	84.5
Intra-EEC	+17.5	+13.9	+10.9	+12.1	+16.4	+10.5	+ 1.1	376	3 811	33.5
To non-EEC countries	- 2.7	- 2.6	+ 6.0	+ 9.8	+ 8.9	+ 7.2	+ 7.4	168	5 797	51.0
Visible imports										
Total	+ 6.3	+12.6	+16.1	+15.4	+ 2.7	+14.5	+ 4.5	221	12 377	100
Intra-EEC	+13.8	+20.0	+23.9	+20.4	+ 6.7	+20.3	+10.7	438	5 373	43.4
From non-EEC countries	+ 3.2	+ 9.1	+12.2	+12.6	+ 0.3	+10.5	+ 0.2	160	7 004	56.6
Imports of food, beverages and tobacco										
Total	- 2.3	+19.8	+ 5.1	+14.9	- 0.5	+ 8.4	- 2.6	132	1 870	15.1
Intra-EEC	-12.3	+37.6	+37.4	+26.2	+ 8.9	+ 1.3	+16.6	484	446	3.6
From non-EEC countries	- 0.8	+17.4	.	+12.5	- 2.8	+10.3	- 7.4	108	1 424	11.5
Imports of raw materials and manufactures										
Total	+ 8.5	+10.9	+18.8	+15.5	+ 3.4	+15.8	+ 5.9	250	10 507	84.9
Intra-EEC	+16.3	+18.7	+22.7	+19.8	+ 6.5	+22.9	+10.5	434	4 927	39.8
From non-EEC countries	+ 4.5	+ 6.6	+16.3	+12.6	+ 1.2	+10.6	+ 2.4	182	5 580	45.1

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1966	151	157	158	158	158	162	142	95	154	161	166	167
	1967	160	161	163	161	159	165	142	97	158	165	170	171
	1968	166											
Unemployed ('000)	1966	171.3	167.3	155.7	145.6	134.0	122.7	121.1	124.4	137.2	153.7	165.7	173.5
	1967	193.8	194.3	189.2	188.7	179.0	168.3	168.3	174.4	193.4	216.9	238.2	248.2
	1968	271.8	273.8										
Construction: permits issued ('000)	1966	41.3	36.3	42.1	48.0	36.6	49.4	44.2	40.5	38.2	42.1	44.2	47.2
	1967	31.6	36.2	41.1	37.7	42.2	40.3	41.3	35.7	36.7	37.2	39.8	49.6
	1968												
Private consumers' expenditure: turnover of department stores (1962 = 100)	1966	121	107	126	127	124	135	129	114	141	140	143	222
	1967	127	110	137	129	133	139	131	119	157	139	149	226
	1968												
Total visible imports (million u.a.)	1966	897	935	1 098	994	1 002	1 060	929	779	993	1 030	1 054	1 104
	1967	1 067	1 039	1 172	1 047	1 056	1 018	927	772	1 011	1 058	1 064	1 150
	1968	(1 090)	(1 104)										
Total visible exports (million u.a.)	1966	774	873	1 023	947	915	960	951	729	843	950	920	1 013
	1967	883	903	992	970	921	1 024	956	702	917	1 039	1 020	1 056
	1968	(984)	(1 055)										
Balance of trade (million u.a.)	1966	- 123	- 62	- 75	- 47	- 87	- 100	+ 22	- 50	- 150	- 80	- 134	- 91
	1967	- 184	- 136	- 180	- 77	- 135	+ 6	+ 29	- 70	- 94	- 19	- 44	- 94
	1968	(- 106)	(- 49)										
Official gold and foreign exchange reserves (gross, million u.a.)	1966	5 468	5 503	5 571	5 649	5 724	5 821	5 967	5 963	5 893	5 856	5 798	5 744
	1967	5 710	5 716	5 705	5 722	5 748	5 772	5 814	5 824	5 835	5 848	6 182	6 108
	1968	6 053	6 014										
Money supply (FF '000 million)	1966	174.5	173.5	175.6	177.3	177.7	182.1	186.3	184.0	184.7	185.0	182.7	190.7
	1967	187.8	185.6	188.3	191.7	189.6	194.6	197.6	193.7	195.2	194.1	190.0	199.7
	1968	193.4											

France

NOTES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Table 1

- Total population at mid-year.
- Numbers in employment at mid-year.
- Breakdown of gross domestic product at factor cost.
- GNP at market prices.

Table 2

- GNP at market prices.
- Industrial production: value added by industry.
- Total exports and imports: goods, services and factor income.

Table 3

- Exports fob, imports cif. Conversion at official exchange rate. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (groups 0 and 1 CST), raw materials and manufactures (groups 2-9 CST).

Table 4

- Industrial production, excluding construction, food, beverages and tobacco.
- Unemployed : position at end of month.
- Construction. Building permits granted for housing. Source: Bulletin statistique du Ministère de la construction.
- Private consumer's expenditure. Index of value of total turnover of department stores, "5 and 10's", and other non-specialized stores.
- Exports fob, imports cif. Conversion at official exchange rates.
- Official gold and foreign exchange reserves. Gross reserves of gold and convertible currency held by the Banque de France and the Fonds de stabilisation des changes at end of month.
- Money supply. Source: Conseil national du crédit. Fiduciary circulation (total of coins and notes in circulation, excluding coins and notes held by the Banque de France) plus sight deposits (deposits made with the Banque de France by private persons or enterprises, deposits with Post Office savings accounts or with Treasury agencies, plus the sight deposits relating to the activities pursued within France by the banks — registered banks, banques populaires, caisses de crédit agricole and the Banque française du commerce extérieur — no matter whether these deposits are shown in French francs or some other currency or whether they belong to residents or non-residents). End-of-month figures.

C. Italy

As expected, the business trend became more lively again towards the end of 1967 after several months of somewhat hesitant progress. The key to the new trend was export demand, which increased vigorously as a result mainly of the brisk revival of business activity in the Federal Republic of Germany. Domestic demand also expanded, chiefly owing to an appreciable recovery of investment in plant and machinery. Supply responded to demand without undue strain: in particular, industrial production definitely began to expand again and imports continued to rise rapidly.

The outlook for the business trend in 1968, as described in the last Quarterly Survey, has not changed substantially. Despite some uncertainties affecting export demand, the outlook is very favourable. It is considered likely that in 1968 the growth of the real GNP will be about 5.5 %.

1. Recent developments

As expected, the business trend once again became appreciably more lively in the final months of 1967, and presumably in early 1968 too, after a brief lull. The decisive impetus very probably came from export demand.

The export trend once more moved very distinctly upwards after being exceedingly sluggish for a time in 1967. Visible exports in particular, especially those to the rest of the Community, forged ahead owing largely to the fresh upswing of the business trend in the Federal Republic of Germany. The expansion of exports of food and capital goods was above average. In the fourth quarter of 1967 the year-to-year growth rate of visible exports in terms of value was 9.5 % and in January 11.8 %, as compared with 3.5 % for the third quarter. Exports of services probably also made substantial progress.

Domestic demand as a whole no doubt also tended upwards, though certainly considerably less fast than export demand.

In the field of investment expenditure, the growth of investment in plant and machinery,

which had come to a standstill for a time, may have picked up again in the final months of 1967. The trend of production of leading capital goods and the trend of foreign trade in the same items suggest that the recovery was quite pronounced, at any rate in October and November. Though the December results were rather poor, this seems chiefly if not entirely due to the influence of special factors. The findings of the EEC Business Surveys, at all events, in the four months up to and including January indicate a markedly improved trend for the number of domestic orders received in the capital goods industry. According to the indicators, which however are not completely consistent, investment in building and construction probably made further though slow progress.

Private consumers' expenditure grew no doubt, but probably still rather sluggishly, presumably as a result of the earlier slowdown of the business trend. In the first months of 1968, however, private consumers' expenditure probably expanded faster again, chiefly because of the effects on income exerted by the recovery of export and investment demand at the end of 1967.

The trend of demand and the exceptionally favourable weather led to a distinct increase in supply. According to the figures prepared by ISCO for its latest six-monthly report to the National Council for the Economy and Labour (CNEL), the real GNP, adjusted for seasonal variations, probably grew by no less than 3.3 %, after a slight decrease from the second to the third quarter. According to the same source, the main factors contributing to this trend were a vigorous acceleration in farm production and a sharp recovery of industrial production. The figures for industrial production in December 1967—3 % higher than a year earlier, after a year-to-year increment of 8.5 % for October-November—were strongly influenced by exceptional factors, such as the reduced number of working days because of the particularly large number of days taken off to bridge gaps between public holidays. By January 1968 the year-to-year growth rate was substantially higher once again. According to provisional calculations, industrial production, after adjustment for seasonal variations, reached a new peak in that month.

Visible imports, especially of raw materials, continued to expand at a fast rate; in the fourth quarter they were 12 % higher in terms of value than a year earlier. The ISTAT figures put imports in January 1968 lower than in January 1967, but it is thought that this is merely a result of the way the statistics are compiled and does not reflect the real situation. Imports of services also seem to have risen rapidly.

After the growth of the number of persons in paid employment had remained hesitant for a time, the demand for labour probably developed more firmly with the recovery of production. At any rate, according to the latest ISTAT sample survey, the seasonal increase from October to January in the number of unemployed was particularly small this time.

There was quite a marked tendency for prices to settle down at the turn of the year, largely owing to the particularly abundant supply of farm produce, although previously they had been moving upwards at a distinctly faster pace, mainly because of external or autonomous factors, such as the Middle East crisis and adjustments of charges for public services. Indeed,

the consumer price index dropped slightly for a time in the fourth quarter of 1967, but wholesale prices continued to drift upwards. But in January the gap between the trend of consumer prices and that of wholesale prices again widened a little.

The changing pattern of exports and imports resulted in a pronounced improvement in the current account. Mainly for this reason the normal seasonal deterioration of the overall balance of payments in the last quarter of 1967 and in January 1968 was relatively mild. By contrast with the trend a year earlier, net official gold and foreign currency reserves consequently rose, though slightly, during the fourth quarter; the seasonal drop in reserves in January-February was small this year.

The banks' domestic liquidity probably continued to contract. The decline, however, was apparently smaller than a year before, as the monetary authorities made funds available to the banks in particularly large quantities in order that sufficient capacity to grant credit might be maintained. This the authorities did in various ways, mainly by granting rediscount credit and advances against securities, but also once more through a change of the rules on the composition of minimum reserves. The growth rate of bank advances again seems to have fallen off slightly, but demand for capital market funds has if anything grown more rapidly.

Despite the announcement of heavy issues of public stock (amounting to Lit. 750 000 million) and the fact that a part of these issues has already been made, the rate of interest on the capital market continued, as a result of direct and indirect support measures of the Banca d'Italia, to move upwards at the same modest rate until November, and gathered only a little momentum in December.

2. Outlook

An outline of the prospects for the Italian economy in 1968 was given in the last Quarterly Survey¹ and still seems valid. It is therefore not repeated here, but instead a few supplementary points are made. As before, the out-

¹ Quarterly Survey No. 4/67, pp. 81-83.

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ¹		1968 ²
	At current prices (in Lit. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ³	6 602	+ 13.2	+ 12.0	+ 6	+ 7.4	+ 9
Gross fixed asset formation	6 724	+ 3.4	+ 5.3	+ 10.1	+ 12.9	+ 9
Public current expenditure on goods and services	5 183	+ 3.5	+ 6.9	+ 2.7	+ 4.8	+ 3.5
Private consumers' expenditure	22 224	+ 5.9	+ 9.0	+ 6.1	+ 9.3	+ 5.5
Gross national product	35 648	+ 5.7	+ 5.7	+ 5.9	+ 8.7	+ 5.5
Imports ³	5 435	+ 13.7	+ 13.7	+ 10.5	+ 12.5	+ 12

¹ «Relazione Generale sulla situazione economica del Paese (1967)».

² Commission forecasts.

³ Goods, services and factor income.

Note :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.
 (b) The forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries, but are established and published on the sole responsibility of the Commission.

look points to expansion, especially as the recovery of the business trend forecast for the fourth quarter of 1967 has definitely got under way.

This appraisal is based, as was explained at the time, chiefly on the assumption of rapid growth of exports and investment.

The prospects for the future trend of export demand are affected by special uncertain factors because of the devaluation measures taken last autumn, particularly in the United Kingdom, and perhaps still more because of the balance-of-payments measures which were announced in the United States on 1 January 1968 but have not yet been spelled out in detail. For the various reasons given in the last Quarterly Survey, these factors, however, are hardly likely to be of major importance.

Some industries, nevertheless, may be hurt more than others. The expansion of the tourist trade, for example, which is particularly important for the economy of southern Italy and the islands, will probably suffer some growth losses. In the first place, the competition that Italy has to face from other tourist countries has become keener especially through the devaluation of the Spanish peseta (though other factors set limits to this tendency: one consideration is that the capacity of the tourist trade in these countries is already almost fully taken up and cannot, of course, be expanded to more than a certain extent in the short term). In the second place, the inhabitants of those countries where the devaluation measures referred to and other balance-of-payment measures have been adopted, or are planned, will find travel abroad dearer than before. On this last point, however, it

should be borne in mind that the expenditure on travel of US and UK tourists in Italy accounted in 1966 for a bare 4 % of Italy's total exports of goods and services, and in 1967 it probably represented an even smaller percentage.

According to the results, now available, of the latest six-monthly EEC Investment Survey of leading industries, managements were planning for 1968—at any rate before the balance-of-payments measures referred to were made known—a good 20 % overall increase in investments. This would represent a rate of expansion which would be a little faster even than that for 1967.

In the field of short-term economic policy, the Italian authorities decided on a number of measures to stimulate, or at least to facilitate, exports. At the end of last year, for example, rules on foreign currency applying to firms engaged in foreign trade were considerably simplified and subsequently arrangements were made to expedite refunds of turnover tax to exporters. In addition a law passed in March provides for tax concessions and for interest and capital subsidies in connection with investments in the tourist trade.

Other measures—probably more important—affecting short-term development, which were

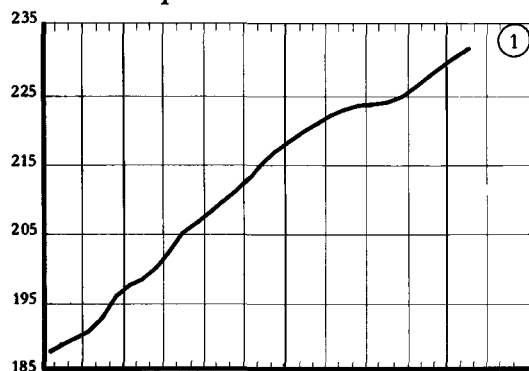
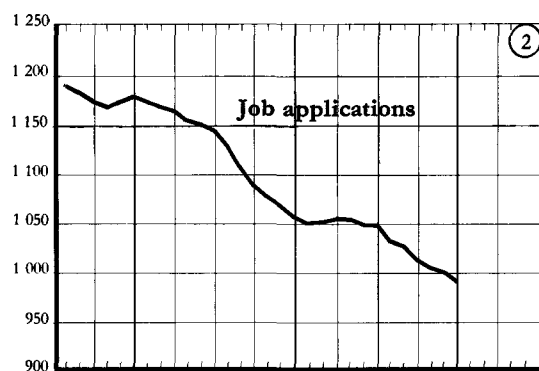
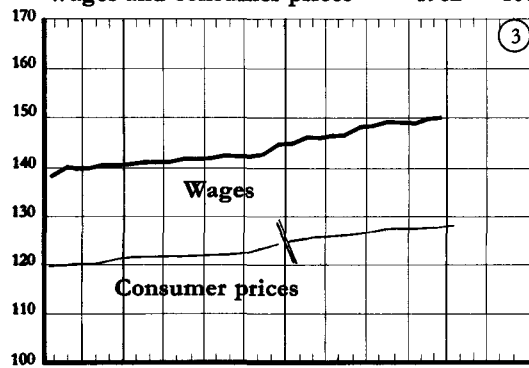
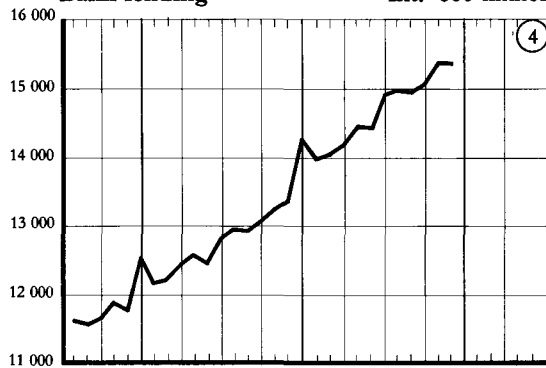
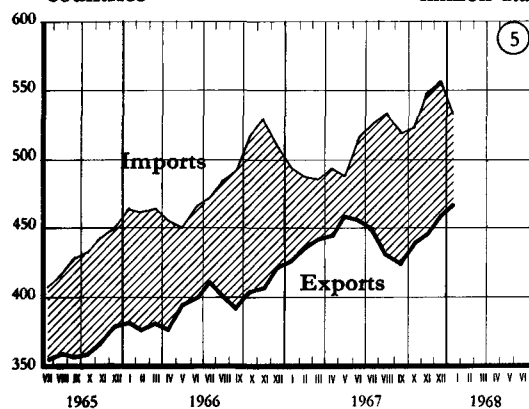
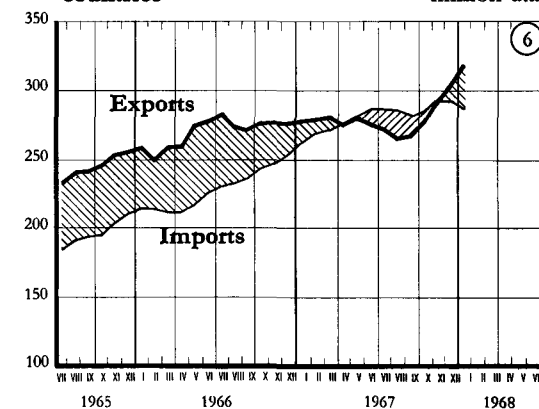
also taken at the end of the year or in February 1968, dealt with the extension of existing provisions, such as maintenance of certain special supplements to turnover tax rates and most income tax rates, pursuance of specific measures to help the building industry, and maintenance of tax concessions for company mergers. Furthermore, Parliament passed a Government bill to raise considerably and otherwise improve pensions from 1 May.

The Italian Government has repeatedly stressed that to ensure a fast growth rate, it will stick to its policy of keeping interest rates as low as possible and that, within certain limits, it is ready to accept foreign exchange losses which such a policy—especially in view of the UK and US balance-of-payments measures—will probably entail.

Current Italian economic policy is thus in harmony with the relevant guidelines recently recommended by the EEC Council of Ministers on a proposal of the Commission.¹ It is clear that the need, which was particularly stressed in the last Quarterly Survey (p. 83), to avoid excessive official recourse to the capital market has gained in importance in view of the cheap-money policy.

¹ See Annex.

ECONOMIC INDICATORS

Industrial production 1958 = 100**Labour market** thousands**Wages and consumer prices** 1962 = 100**Bank lending** Lit. '000 million**Trade with non-member countries** million u.a.**Trade with other member countries** million u.a.**NOTES :**

Source : Statistical Office of the European Communities (except as otherwise indicated).

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2. Number of registered unemployed, in thousands. Series seasonally adjusted. Three-month moving averages.

Graph 3 : Source: ISTAT. Agreed minimum wages in industry. Consumer prices : new series since January 1967.

Graph 4. Short-term loans. Source : Banca d'Italia.

Graphs 5 and 6. Series adjusted for seasonal variations (three-month moving averages). Exports fob, imports cif. Conversion at official exchange rate.

u.a.: one unit of account = 0.888671 g of fine gold = US \$1 at the official exchange rate.

Italy

TABLE 1: Basic data 1967

Total area ('000 sq. km.)	301.2
Total population ('000)	52 409
Density of population per sq. km.	174
Numbers in employment ('000)	19 107
Numbers in employment, breakdown by main sector (%):	
— Agriculture	23.9
— Industry	40.7
of which : Construction	10.1
— Services	35.4
Percentage share of gross domestic product :	
— Agriculture	10.9
of which: Construction	35.6
— Industry	7.3
— Services	41.4
Gross product per capita (Lit.)	799 000

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966	1966	1966
Gross national product	6.3	8.2	6.3	5.8	2.9	3.9	5.8	157	—
Industrial production	11.1	9.3	8.8	7.9	2.0	3.1	8.0	175	—
Total imports	37.8	14.8	16.4	22.6	— 5.4	1.5	13.5	276	16
Private consumers' expenditure	6.2	7.3	6.7	10.0	2.0	2.0	6.0	155	63
Public current expenditure on goods and services	4.0	4.8	5.4	5.1	3.4	3.6	3.5	140	14
Gross fixed asset formation	13.4	11.8	10.0	9.8	— 7.1	— 8.9	3.8	147	18
Total exports	18.2	16.5	12.2	7.0	12.0	20.4	12.5	300	19
Gross national product per capita	5.7	7.7	5.6	5.0	2.0	3.0	5.0	148	—
Gross national product per person gainfully employed	6.6	8.0	7.4	7.6	3.1	5.8	7.4	166	—

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year							Indices (1958 = 100)	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	14.7	11.4	8.2	18.0	20.7	11.7	8.3	343.0	8 699.7	100
Intra-EEC	21.8	23.7	10.3	26.4	27.6	12.8	3.4	556.2	3 373.0	38.8
To non-EEC countries	11.8	5.8	7.0	13.4	16.4	11.0	11.7	276.0	5 326.7	61.2
Exports of food, beverages and tobacco										
Total	10.6	14.5	- 3.4	2.4	20.5	1.5	4.8	177.0	903.2	10.4
Intra-EEC	14.7	23.4	- 8.7	8.8	31.4	0.4	- 1.7	242.4	459.3	5.3
To non-EEC countries	7.4	6.5	2.1	- 3.3	9.5	2.8	12.4	138.3	443.9	5.1
Exports of raw materials and manufactures										
Total	15.5	10.9	10.2	20.5	20.7	13.1	8.7	384.9	7 796.5	89.6
Intra-EEC	23.9	23.9	15.6	30.4	26.9	15.2	4.3	698.9	2 013.7	33.5
To non-EEC countries	13.7	4.5	7.7	15.5	17.2	11.8	11.6	303.5	4 882.8	56.1
Visible imports										
Total	10.6	15.9	24.5	- 4.1	1.6	16.7	13.2	307.5	9 699.1	100
Intra-EEC	17.2	22.9	31.1	- 4.5	- 3.1	21.6	21.7	496.1	3 391.6	35.0
From non-EEC countries	8.1	13.0	21.5	- 3.9	3.9	14.4	9.0	253.3	6 307.5	65.0
Imports of food, beverages and tobacco										
Total	5.3	7.3	57.5	2.4	18.9	9.7	0.7	325.7	1 778.9	18.3
Intra-EEC	- 1.3	10.0	73.1	15.7	20.6	13.5	26.6	619.3	481.8	4.9
From non-EEC countries	6.6	6.3	54.4	- 0.6	13.4	8.7	- 6.4	276.9	1 297.1	13.4
Imports of raw materials and manufactures										
Total	11.6	17.5	19.2	- 5.5	- 2.4	18.6	16.4	303.7	7 920.2	81.7
Intra-EEC	19.2	24.1	27.8	- 6.6	- 6.3	23.0	20.9	480.3	2 909.8	30.0
From non-EEC countries	8.4	14.4	14.8	- 4.8	- 0.2	16.3	13.9	250.2	5 010.4	51.7

TABLE 4 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1966 = 100)	1966	90.7	91.8	105.1	97.5	106.6	99.2	105.6	78.0	108.5	107.8	103.8	105.4
	1967	103.1	103.1	114.6	109.9	112.9	111.1	113.6	79.5	114.1	117.2	112.7	105.7
	1968	108.2											
Unemployed ('000)	1966	1 012	.	.	665	.	.	719	.	.	681	.	.
	1967	878	.	.	628	.	.	584	.	.	669	.	.
	1968	812											
Building : domestic turnover of building materials (1964 = 100)	1965	88.0	74.9	95.2	88.0	91.3	107.5	105.6	100.4	101.1	101.6	101.6	98.7
	1966	78.2	70.8	97.2	100.2	106.8	103.3	110.5	111.1	94.2	111.6	105.4	103.7
	1967	98.7	86.9	109.6	108.0	121.3	131.7	122.0	125.0	101.1	127.7	130.9	113.8
Private consumers' expenditure : turnover of department stores (1958 = 100)	1965	270	215	249	303	284	318	296	241	330	354	319	542
	1966	313	231	275	313	319	338	306	267	330	377	355	586
	1967	302	245	336	303	352	363	348	284				
Total visible imports (million u.a.)	1966	716	665	729	665	717	706	707	561	815	802	754	734
	1967	827	760	796	809	785	810	851	689	791	870	879	839
	1968	(755)	(738)										
Total visible exports (million u.a.)	1966	572	598	712	612	722	699	723	592	681	758	678	685
	1967	661	690	771	715	768	708	745	615	715	818	754	745
	1968	(738)	(773)										
Balance of trade (million u.a.)	1966	- 144	- 66	- 17	- 53	+ 5	- 7	+ 16	+ 31	- 134	- 44	- 76	- 48
	1967	- 166	- 70	- 23	- 95	- 17	- 102	- 106	- 74	- 77	- 52	- 125	- 94
	1968	(- 17)	(+ 35)										
Official gold and foreign exchange reserves (net, million u.a.)	1966	4 425.9	4 386.4	4 337.6	4 404.2	4 433.8	4 537.3	4 772.8	4 995.8	4 758.2	4 672.6	4 642.4	4 679.4
	1967	4 514.2	4 473.1	4 535.5	4 647.4	4 708.2	4 721.0	4 876.2	5 135.0	5 233.0	5 359.5	5 335.0	5 246.0
	1968	5 139.0	5 148.0										
Money supply (Lit. '000 million)	1965	11 984	11 861	12 077	12 225	12 522	12 687	12 885	12 808	13 108	13 227	13 420	14 495
	1966	14 029	13 933	14 046	14 118	14 321	14 598	14 850	14 744	15 003	15 182	15 274	16 373
	1967	15 840	15 662	15 981	16 157	16 417	16 576	16 778	16 623	16 964	16 956	17 075	

() Provisional figures.

Italy

NOTES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Table 1

Source: Relazione generale sulla situazione economica del Paese (1967).

- Present-in-area population (resident population less persons temporarily abroad). Average for year.
- Breakdown of gross domestic product at factor cost.
- GNP at market prices.

Table 2

- GNP at market prices.
- Industrial production: value added by industry at factor cost.
- Total exports and imports: goods, services and factor income.

Table 3

- Exports fob, imports cif. Conversion at official exchange rate. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (groups 0 and 1 CST), raw materials and manufactures (groups 2-9 CST).

Table 4

- Industrial production. Source: Istituto Centrale di Statistica.
- Unemployed. Source: Istituto Centrale di Statistica.
- Construction. Internal trade in building materials, calculated from turnover taxes. Source: Istituto per lo Studio della Congiuntura.
- Private consumers' expenditure. Retail sales of department stores, based on the turnover of 5 department stores and 2 "single-price" stores. Not very typical of the trend in private consumption as a whole.
- Exports fob, imports cif. Conversion at official exchange rate.
- Official gold and foreign exchange reserves. Source: Ufficio Italiano dei Cambi.
- Money supply. Notes and coin in circulation excluding cash holdings of the Treasury. Sight deposits of non-banks with registered credit institutions; banks drafts in circulation (whether vaglia or assegni) issued by the Central Bank and other banks and credit institutions.

D. The Netherlands

The recovery of economic activity which became discernible in mid-1967 gathered additional momentum in the closing months of the year and at the beginning of 1968. The trend of production is now definitely upwards, and the situation on the labour market, where until the autumn of 1967 conditions had been steadily easing, has changed markedly.

At the same time there has, however, been some deterioration in the underlying trends determining economic equilibrium: the tendency for prices and costs to rise appears to have again gained somewhat in strength, while the current balance of payments has deteriorated appreciably.

There is much evidence to suggest that the situation will not change basically as the year 1968 advances, so that the authorities should continue to support growth through the selective use of the instruments available, establishing a balanced "policy mix", and acting promptly if signs of disequilibrium should be noted.

1. Recent developments

At the turn of the year, exports were still rising vigorously, mainly because demand from within the Community had again become more lively. Foreign trade returns show that in the fourth quarter the value of visible exports was 8 % and in January-February as much as 14.4 % up on the corresponding periods of the previous year.

The expansion of expenditure on gross fixed asset formation has probably gathered some momentum in recent months. As regards investment by firms, the vigorous rise in expenditure on building may have lost a little momentum—after certain special factors, especially the heavy demand backlog and an unusually high elasticity of demand became of less importance—while expenditure on plant and machinery, the trend of which had reached its lowest point in the third quarter, appears to be rising more briskly. Expenditure on residential construction, too, has probably expanded more appreciably (apart from variations) since the summer. Public investment has continued to forge ahead.

Towards the end of 1967, stockbuilding was apparently making a major contribution to overall economic activity. At all events, demand not only for raw materials and semi-manufactures but also for finished products reached a scale which suggests that firms were replenishing depleted stocks. This may, however, have in part been due to anticipatory purchases ahead of the increase in import tax effected on 1 January 1968.

Public current expenditure appears to have continued to rise vigorously in the closing months of 1967. There was also a further and presumably faster rise in private consumers' expenditure. Demand for traditional consumer goods in particular increased appreciably. The fact that towards the end of 1967 consumption expanded particularly vigorously may, however, to some extent also have been attributable to anticipatory purchases, made ahead of the increase in turnover tax which became effective for various items on 1 January 1968.

With overall demand expanding at a more lively tempo once again, the growth of domestic pro-

duction accelerated slightly. According to the CBS index, industrial production per working day in the last quarter of 1967 was 6.8 % higher than a year before. There was a vigorous rise, in particular, in the production of natural gas, chemicals and mineral oil.

But the general revival of demand also boosted imports, which rose at a distinctly faster pace. Foreign trade statistics show that in the fourth quarter of 1967 the volume of visible imports was about 9.5 % and in January-February as much as 14 % higher than in the corresponding period of the previous year. The main categories concerned were raw materials and semi-manufactures—partly to make up depleted stocks—and capital goods.

There has of late been an increasing improvement in the situation on the labour market: the number of unemployed—including in particular unemployed building workers—has declined (apart from variations) since October 1967, while for the first time in two years the number of unfilled vacancies again began to rise a little. The unemployment rate (seasonally adjusted percentage of unemployed in the total civilian labour force) has also declined, though at 1.8 % it was in January-February 1968 still somewhat higher than a year before (1.6 %). The very pronounced region-to-region disparities in unemployment registered previously have apparently decreased in the past few months since the provinces where the unemployment was higher than average are the ones in which the numbers seeking employment have fallen most.

The price climate was still comparatively settled in the fourth quarter of 1967. The cost-of-living index (which ignores statutory social security contributions and the wages tax) was about 3.5 % up for this quarter on the corresponding period of the previous year. It appears, however, that after the turn of the year because of the business situation some categories of prices were tending to rise faster, while autonomous factors, such as the increase in turnover tax and the raising of rents for state-subsidized housing, also forced the cost of living up. In January 1968, the index showed a year-to-year increase of 3.9 %.

As for the balance of trade, recent months have seen a rapid increase in imports. The current

account, which in the third quarter of 1967 (including unrequited items, and on a transactions basis) had closed with a surplus of Fl. 414 million, ran up a deficit of some Fl. 75 million by the fourth quarter.¹ As a result of very substantial inflows of short-term funds, which were in part certainly attributable to changes in the international monetary situation, the overall balance of payments none the less still showed a surplus of Fl. 240 million for the last three months of 1967. The net gold and foreign exchange reserves of the Central Bank increased considerably while the net foreign exchange position of the commercial banks deteriorated.

Although in the fourth quarter of 1967 the balance of payments and transactions by the private sector had a fairly expansionary influence on the trend of domestic liquidity, the main factor affecting domestic liquidity was the restrictive impact of the central government cash surplus, which was higher than in the corresponding period of the previous year. Private-sector demand for long-term bank loans remained at a low level, while demand for short-term loans increased steeply (24 % on the corresponding period of the previous year). On the capital market, interest rates continued to rise, but the rate at which they did so slackened somewhat at the beginning of 1968.

2. Outlook

The forecasts for 1968 given in the last Quarterly Survey must be modified slightly in view of the results of the wage negotiations held since the beginning of the year on the renewal of short-term wage agreements in a number of industries. The fears then expressed that the rise in wages might appreciably exceed the increase forecast by the Dutch authorities have since proved well-founded. Consequently, unless the current system of free wage fixing is changed fundamentally, the expansion of the total wages and salary bill in 1968 is not likely to slow down as had originally been expected. In the circumstances, the rise in wage costs per unit of output, which in 1967 had definitely lost momentum (partly under the influence of certain special factors) may again gather mo-

¹ For the full year 1967, the current account (transactions) closed with a deficit of Fl. 353 million.

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ²		1968 ³
	At current prices (in Fl. '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	33.36	+ 7.0	+ 6.2	+ 7	+ 6.5	+ 8
Gross fixed asset formation	17.03	+ 6.2	+ 12.2	+ 7	+ 11	+ 1
Public current expenditure on goods and services	10.74	+ 2.9	+ 11.8	+ 5	+ 13.5	+ 2
Private consumers' expenditure	39.87	+ 2.6	+ 9.0	+ 5	+ 8	+ 4.5
Gross national product	68.99	+ 2.8	+ 8.9	+ 5.5	+ 9.5	+ 4
Imports ⁴	33.11	+ 7.8	+ 8.4	+ 6	+ 5.5	+ 7.5

¹ Statistical Office of the European Communities, National Accounts, 1957-1966.

² Estimates made by the Dutch Central Plan Bureau.

³ Commission forecasts.

⁴ Goods, services and factor income.

Notes :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The forecasts are approximations based on certain hypotheses worked out by the Commission and generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

mentum, and the rise in consumer prices too will—contrary to what had previously been expected—probably gain in strength compared with 1967.

In 1968, the changed outlook for wages, wage costs and prices will affect the patterns of supply and of demand and this will probably also have implications for external equilibrium.

Dutch exports must be expected to become less competitive. The trend of exports of the past few years shows, however, that a cost- and price-induced deterioration in the competitive position of the Netherlands has hitherto always been more than offset by an improvement in the pattern and the volume of export supply.

In 1968, too, exports will benefit from this structural factor. If the economic trend in the major non-member countries does not deteriorate markedly, exports will, in line with the forecasts, probably expand appreciably once again in 1968. In the months ahead the—comparatively high—growth rate recorded in the second half of 1967 may, however, tend to fall appreciably.

The forecasts for imports of goods and services must, on the other hand, be revised slightly upwards, since demand for consumer goods in particular can now be expected to be more dynamic. In the circumstances, the surplus on current account, which as recently as at the beginning of 1968 was officially estimated at

Fl. 500 million, will in fact probably be only very modest or may even give way to a deficit.

Since the unfavourable development of the balance of payments is attributable to domestic factors, those in charge of short-term economic policy should endeavour to control both the vigour and the structure of domestic demand in such a way that equilibrium is maintained.

In the first place, such action is necessary because the rise in wages now will not only mean a more rapid expansion of private consumers' expenditure but also a more vigorous increase in public spending. This will no doubt further aggravate budgetary imbalances and the problem of inadequate saving.

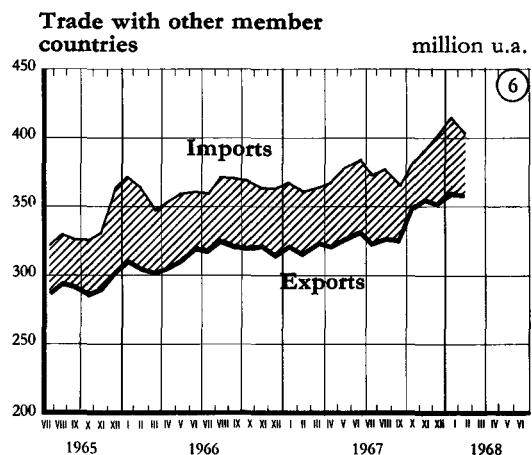
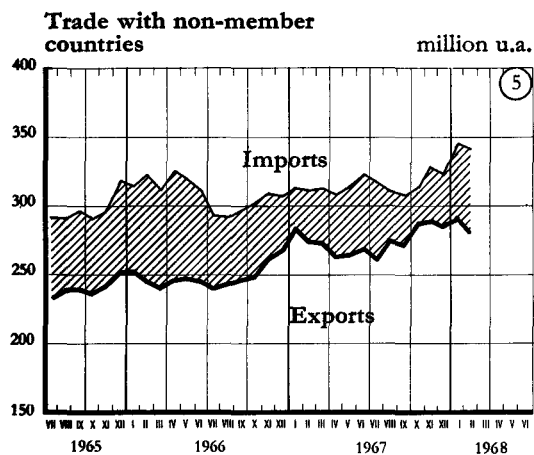
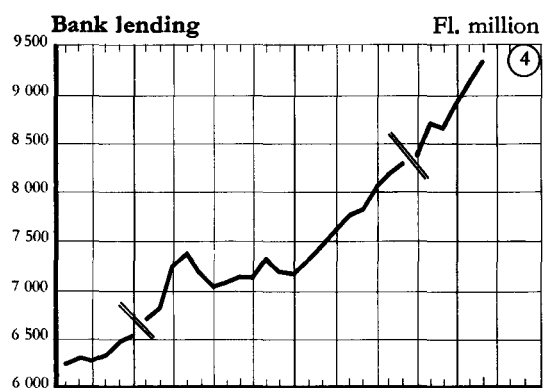
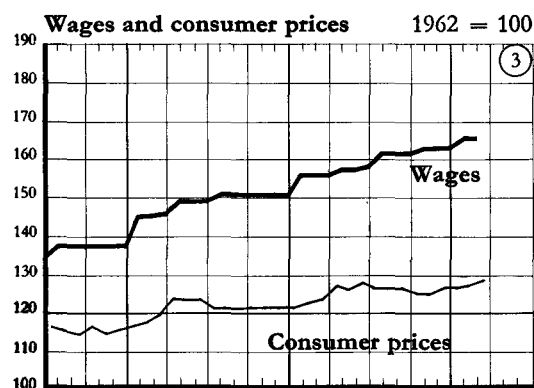
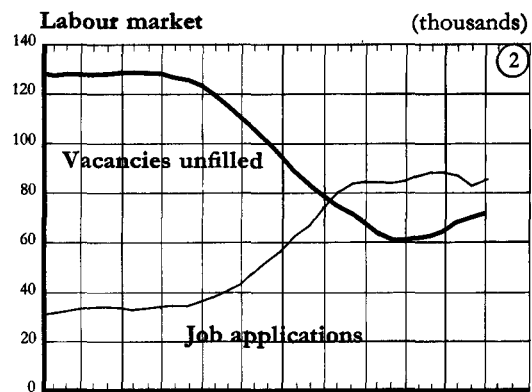
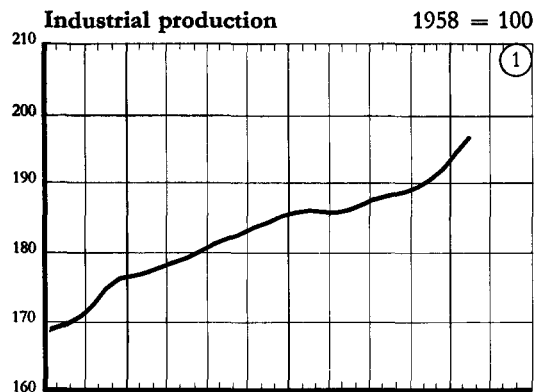
Secondly, as the year advances, the expected further expansion of expenditure on plant and machinery may be curbed by unduly sharp cost

increases and by a tendency for the overall balance of payments to deteriorate, a development which would narrow down the current liquidity margin and tend to force up interest rates.

In the circumstances, a higher priority must be given to the need to keep the expansionary contribution made by the budgets within strict limits. Otherwise, those in charge of monetary and credit policy would be forced to tighten up requirements once again, and this would be bound to discourage growth.

The Government should moreover, as part of incomes policy, continue to concentrate on ensuring that the increase in wages does not exceed the proportions compatible with the exigencies of the balanced expansion of the economy as a whole, while at the same time striving to improve the conditions under which wage increases can, as far as possible, be granted in a form favouring the formation of savings.

ECONOMIC INDICATORS



NOTES :

Source : Statistical Office of the European Communities (except as otherwise indicated).

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2. Adjusted for seasonal variations. Three-month moving averages.

Graph 3. Cost of living for manual and office workers. Source : CBS. Wages—index of gross hourly earnings in industry (excluding mining, quarrying and construction). Index of negotiated wages.

Graph 4. Short-term bank advances. Revised series as from September 1967.

Graphs 5 and 6. Series adjusted for seasonal and accidental variations (three-month moving averages). Exports fob, imports cif. Conversion at official exchange rate.

u.a.: one unit of account = 0.888671 g of fine gold = US \$1 at the official exchange rate.

Netherlands

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	33.5
Total population ('000)	12 455
Density of population per sq. km.	372
Numbers in employment ('000)	4 548
Numbers in employment, breakdown by main sector (%):	
— Agriculture	8.2
— Industry	41.6
of which : Construction	10.4
— Services	50.2
Percentage share of gross domestic product :	
— Agriculture	7.5
— Industry	41.4
of which: Construction	(7)
— Services	51.1
Gross product per capita (Fl.)	6 033

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966	1966	1966
Gross national product	+ 8.9	+ 3.5	+ 3.8	+ 3.7	+ 9.4	+ 5.3	+ 2.8	151	—
Industrial production	+10.1	+ 4.2	+ 4.8	+ 5.4	+10.2	+ 6.5	+ 5.6	171	—
Total imports	+17.3	+ 5.8	+ 7.5	+ 9.5	+14.4	+ 7.2	+ 7.8	220	47.8
Private consumers' expenditure	+ 6.4	+ 5.8	+ 6.5	+ 7.7	+ 6.3	+ 7.8	+ 2.6	159	57.8
Public current expenditure on goods and services	+ 6.6	+ 4.4	+ 5.1	+ 7.8	+ 1.9	— 0.6	+ 2.9	130	16.0
Gross fixed asset formation	+11.6	+ 6.7	+ 4.4	+ 2.1	+17.6	+ 5.6	+ 6.2	188	25.4
Total exports	+13.3	+ 3.0	+ 6.2	+ 6.2	+11.6	+ 8.7	+ 7.0	190	47.2
Gross national product per capita	+ 7.6	+ 2.2	+ 2.4	+ 2.2	+ 7.9	+ 3.8	+ 1.4	136	—
Gross national product per person gainfully employed	+ 6.9	+ 2.1	+ 1.7	+ 2.3	+ 7.8	+ 4.0	+ 1.8	135	—

TABLE 3: Foreign trade (at current prices)

	% change on preceding year							Indices 1958 = 100	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	+ 6.9	+ 6.5	+ 8.2	+17.0	+10.1	+ 5.6	+ 7.9	226	7 288	100
Intra-EEC	+10.9	+10.0	+17.3	+22.1	+10.2	+ 5.3	+ 6.7	299	4 003	54.9
To non-EEC countries	+ 3.6	+ 3.2	- 0.6	+11.2	+10.0	+ 6.0	+ 9.4	175	3 285	45.1
Exports of food, beverages and tobacco										
Total	+ 0.8	+ 6.9	+ 9.3	+ 9.5	+13.0	+ 0.3	+ 9.9	193	1 728	23.7
Intra-EEC	+ 3.1	+10.0	+12.1	+12.8	+19.7	- 0.2	+ 9.6	252	1 061	14.6
To non-EEC countries	- 1.8	+ 3.3	+ 5.8	+ 5.1	+ 3.6	+ 1.0	+10.5	141	667	9.1
Exports of raw materials and manufactures										
Total	+ 9.2	+ 6.3	+ 7.9	+19.6	+ 9.2	+ 7.3	+ 7.3	239	5 560	76.3
Intra-EEC	+14.3	+10.0	+19.4	+25.6	+ 7.1	+ 7.4	+ 5.8	321	2 942	40.4
To non-EEC countries	+ 5.2	+ 3.2	- 2.4	+13.1	+11.9	+ 7.3	+ 9.1	186	2 618	35.9
Visible imports										
Total	+12.8	+ 4.6	+11.6	+18.2	+ 5.9	+ 7.5	+ 4.0	230	8 340	100
Intra-EEC	+21.1	+ 6.7	+14.9	+19.0	+ 8.7	+ 8.7	+ 5.0	300	4 547	54.5
From non-EEC countries	+ 5.8	+ 2.5	+ 8.3	+17.4	+ 2.9	+ 6.0	+ 2.9	180	3 793	45.5
Imports of food, beverages and tobacco										
Total	+ 5.9	+ 6.3	+15.5	+16.2	+ 3.5	+ 3.9	+11.3	204	1 142	13.7
Intra-EEC	+41.5	- 7.0	+11.8	+22.0	+13.1	+ 8.8	+22.7	378	302	3.6
From non-EEC countries	- 1.0	+10.0	+16.3	+14.9	- 1.2	+ 2.5	+ 7.6	175	840	10.1
Imports of raw materials and manufactures										
Total	+14.0	+ 4.3	+11.0	+18.6	+ 6.3	+ 8.0	+ 2.9	235	7 198	86.3
Intra-EEC	+20.0	+ 7.6	+15.0	+19.0	+ 7.8	+ 8.7	+ 3.9	295	4 245	50.9
From non-EEC countries	+ 7.7	+ 0.7	+ 6.1	+18.0	+ 4.2	+ 7.0	+ 1.6	181	2 953	35.4

TABLE 4: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1963 = 100)	1966	117	119	123	126	125	124	105	115	125	133	135	132
	1967	123	126	128	131	126	130	108	122	132	139	144	144
	1968	135											
Construction (Fl. million)	1966			1 554			2 029			2 204			2 122
	1967			2 030			2 364			2 503			2 383
	1968												
Unemployed ('000)	1966	54.8	55.3	34.5	30.7	25.6	26.3	32.1	32.6	35.7	41.7	58.5	86.7
	1967	104.7	101.8	87.4	78.2	67.2	64.7	74.4	71.4	72.2	78.3	89.4	111.7
	1968	121.2	111.1										
Investment (Fl. million)	1966			4 128			4 937			4 924			5 108
	1967			4 699			5 446			5 321			
	1968												
Private consumers' expenditure (1963 = 100)	1966	129	114	130	141	133	136	148	132	136	142	147	159
	1967	142	125	146	144	149	151	152	144	152	149	161	172
	1968												
Total visible imports (million u.a.)	1966	625	626	759	701	630	654	652	620	696	670	668	688
	1967	680	639	719	690	694	737	650	652	683	733	746	717
	1968	823	693										
Total visible exports (million u.a.)	1966	500	470	572	570	544	612	549	498	632	597	615	593
	1967	601	532	606	582	592	642	536	605	641	686	665	601
	1968	681	615										
Balance of trade (million u.a.)	1966	- 125	- 156	- 188	- 131	- 86	- 71	- 103	- 122	- 64	- 72	- 53	- 95
	1967	- 80	- 107	- 113	- 108	- 102	- 95	- 114	- 46	- 42	- 47	- 81	- 116
	1968	- 142	- 78										
Official gold and foreign exchange reserves (million u.a.)	1966	1 970	1 972	1 997	1 943	1 953	1 918	2 012	2 010	1 996	2 002	2 036	2 036
	1967	1 970	1 995	1 998	1 995	2 065	2 094	2 104	2 064	2 104	2 229	2 271	2 268
	1968	2 194											
Money supply (Fl. '000 million)	1966	17.09	17.07	17.04	17.50	18.10	18.58	18.43	18.04	17.98	17.77	18.03	18.34
	1967	17.89	17.97	18.27	18.74	19.31	19.98	19.67	19.33	19.55	19.19	19.44	19.51
	1968												

Netherlands

NOTES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Table 1

- Total population at mid-year.
- Numbers in employment, average for year. Source : CBS.
- Breakdown of GNP at factor cost.
- GNP at market prices.

Table 2

- GNP at market prices.
- Industrial production: value added by industry.
- Total exports and imports: goods, services and factor income.

Table 3

- Exports fob, imports cif. Conversion at official exchange rate. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (groups 0 and 1 CST), raw materials and manufactures (groups 2-9 CST).

Table 4

- Industrial production. Source: Centraal Bureau voor de Statistiek (CBS). General index, adjusted for number of working days.
- Construction. Source: CBS. Building production. Total value, quarterly figures.
- Unemployed. Source : CBS. Total unemployed.
- Investment. Source: CBS. Gross fixed investment. Total value, quarterly figures.
- Private consumers' expenditure. Source : CBS. Index of value of private consumption.
- Exports fob, imports cif. Conversion at official exchange rates.
- Official gold and foreign exchange reserves. Gross reserves of gold and convertible currency held by the official monetary institutions.
- Money supply. Notes and coin in circulation, excluding cash holdings of monetary institutions. Sight deposits with credit institutions.

E. Belgo-Luxembourg Economic Union

Belgium

Since last autumn economic expansion has gathered a little momentum, mainly owing to a marked rise in demand in the other Member States. Export demand has stimulated domestic production, as has a tendency by firms to replenish depleted stocks, though the latter factor has served mainly to boost imports. Since the present favourable export trends will probably continue, and in view of the measures to revive the economy adopted by the Government at the beginning of the year, an increase in the real GNP of 3.5 % in 1968 seems certain.

Nevertheless the labour market situation will probably not improve appreciably before the end of the year, so that a short-term economic policy which continues to give priority to growth and the improvement of the employment position is fully justified.

1. Recent developments

Even if the efforts of firms to make up arrears of orders delayed during the customs officers' strike, which lasted several weeks, are disregarded (and for a time there was a very sharp spurt of activity on this account alone), an unmistakable change in the trend of exports of goods and services was discernible in the autumn of 1967: since then the underlying trend has been rising once again, mainly because of a rise in demand in the other Member States, especially Germany and France. Yet deliveries to non-member countries—in particular to the United States—have also risen although less markedly.

On the other hand the growth rate of final domestic demand probably remained quite low in the last months of the year and into 1968.

For there is no evidence that the tendency—still dominant in the autumn of 1967—for expenditure on gross fixed asset formation to fall off has since changed.

Private consumers' expenditure has again risen only a little, although the rise in hourly wages

has been somewhat greater than before as a result of the application of the sliding scale in a number of major industries. The fact that the level of employment has again shown virtually no change and that consumer spending has remained cautious in the face of the continuing rise in unemployment appears as before to have had a moderating effect on the expansion of consumer demand.

In the final months of 1967 there was an improvement in the trend of imports and, though to a lesser extent, in the trend of production. According to the INS index, industrial production in the fourth quarter was running more than 2.5 % above the corresponding 1966 figure. Towards the end of 1967, production (adjusted for seasonal and fortuitous variations) was slightly above the level which it had reached at the beginning of 1967. Building output tended to remain the same, however, despite further increases in expenditure on public works.

The steep rise in imports and the fact that imports from non-member countries have risen the most indicate that firms have started replenishing depleted stocks of raw materials and semi-manufactures. While, according to exter-

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ²		1968 ³
	At current prices (in Bfrs '000 million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	327.0	+ 3.7	+ 7.2	+ 6	+ 6.5	+ 7
Gross fixed asset formation	177.8	+ 5.9	+ 9.2	+ 2.5	+ 5.5	+ 2.5
Public current expenditure on goods and services	109.2	+ 6.5	+ 10.8	+ 3.5	+ 9.5	+ 2.5
Private consumers' expenditure	549.4	+ 2.9	+ 7.1	+ 2.5	+ 5.5	+ 2.5
Gross national product	847.4	+ 2.8	+ 7	+ 2.5	+ 6.5	+ 3
Imports ⁴	320.0	+ 7.8	+ 11	+ 3	+ 2	+ 8.5

¹ Statistical Office of the European Communities, National Accounts 1957-1966.

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

Note :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

(b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

nal trade statistics, merchandise imports were not as high in value in the first nine months of 1967 as in the same months of the previous year, the year-to-year comparison for the fourth quarter showed an increase of 5 %.

The recovery of production has not yet been vigorous enough to change the situation on the labour market to any significant extent. The number of unemployed has risen further, though somewhat more slowly than before, giving an unemployment rate¹ in January 1968 of 2.6 %. However, the trend of unfilled vacancies has changed a little.

Although charges for services have continued to increase at a lively pace the new index suggests that the rise in consumer prices has slowed down

slightly in recent months. None the less, the index in January/March 1968 was 3.1 % above the level for the corresponding period of 1967.

The fairly marked recovery in imports partly explained the continuing slight deterioration of the current account, a trend which had begun in the middle of 1967. In the fourth quarter of 1967, however, there was still a considerable surplus on this account. Partly because of further appreciable net capital inflows, the balance of payments closed in the fourth quarter with a surplus of Bfrs. 6 500 million.

¹ Number (seasonally adjusted) of persons drawing unemployment benefit expressed as a percentage of the total civilian labour force.

Domestic liquidity continued to expand, although rather more slowly. On the money market the tendency for interest rates to fall again definitely dominated, inducing the Banque Nationale to cut Bank rate in March 1968 by 0.25 % to 3.75 %. On the capital market, on the other hand, interest rates did not fall to any appreciable extent. The main reason for this was the demand for capital by the public authorities, which remained heavy, mainly in connection with public works projects.

2. Outlook

In the previous Quarterly Survey (No. 4/1967) it was predicted that growth would probably gather a little momentum during 1968, spurred on by a fairly pronounced recovery of export demand.

This recovery has in fact now taken place, and it seems that exports of goods and services will continue to increase at a fairly high rate in coming months. To be sure, the devaluations and restrictive measures introduced in the United Kingdom and the United States may tend to limit the scope for sales outside the Community. But the outlook for a rise in exports to EEC member countries has become still more favourable, chiefly in view of the recovery—now definitely under way—in Germany. The anticipated moderation of the rise in unit cost and recent official action (notably in the tax field) to promote exports are also important factors. All in all, the contribution of export demand to economic activity in coming months is bound to be considerable.

But investment in stocks is also likely to prove a fairly vigorous spur to growth. However, in this field, imports will probably be affected more than domestic production, at least initially, when it is likely that firms will be mainly concerned with replenishing depleted supplies of raw materials and semi-manufactures.

With regard to the other components of domestic demand, there are at present no signs of any appreciable spontaneous acceleration of expansion. Though the degree of utilization of industrial capacity will certainly increase in the course of the year—mainly because production

will now be expanding more briskly once again—it is not likely that this will have any very pronounced effects before the end of 1968 on the propensity to invest. However, gross fixed asset formation should in general grow at a rather more lively pace than was originally estimated: in January the Government announced a programme to encourage economic activity, the main points of which were a further appropriation expenditure of some Bfrs 2 000 million for public works and the construction of an additional 2 000 state-subsidized dwellings.

The considerable improvements in various social benefits made at the beginning of the year and the announced relaxation of the regulations governing hire-purchase sales and consumer credit will help to strengthen private consumers' expenditure, though these measures will hardly suffice to generate any very considerable recovery in this demand component, since wage rates will probably rise more slowly than in 1967 and the propensity to save may decline only moderately while conditions on the labour market are continuing to ease.

In the first six months the main effect of the growth of aggregate demand will be an expansion of imports. Later in the year, if stocks of raw materials and semi-manufactures have reached their optimum level again, the rate of increase of imports could well slow down, while domestic production and especially industrial production should expand more rapidly.

The rise in the underlying trend of unemployment still discerned in the final months of last year is unlikely to continue at the same tempo. It would, however, be hazardous at the present time to predict any definite change in the underlying trend and an actual decline in unemployment, because the rise in production expected will be achieved mainly through the exploitation of existing productivity reserves. The number of unemployed is likely therefore to remain relatively high during the greater part of the year.

Because, moreover, increased price strains—given the price trend—are hardly to be expected and because, in particular, the rise in consumer prices will probably remain relatively moderate, the additional measures adopted by the Government in January to encourage economic growth

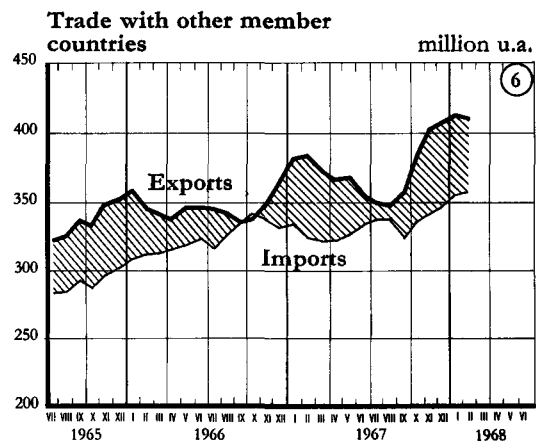
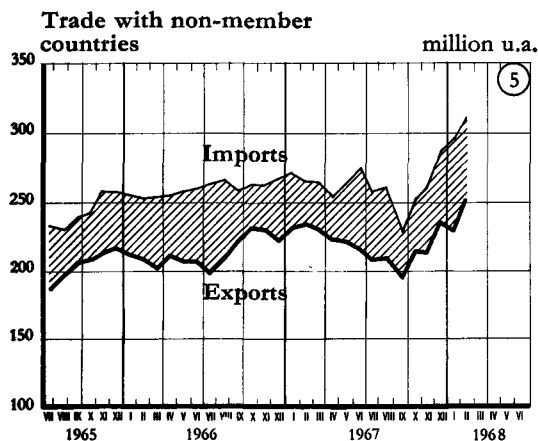
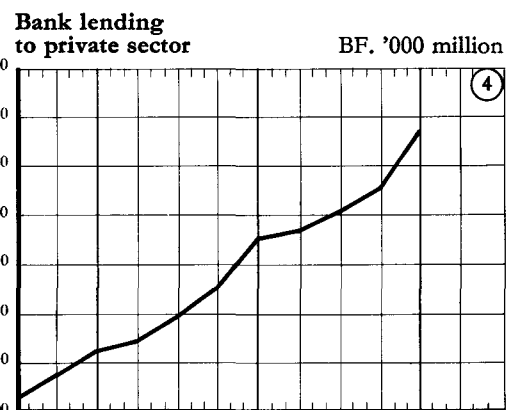
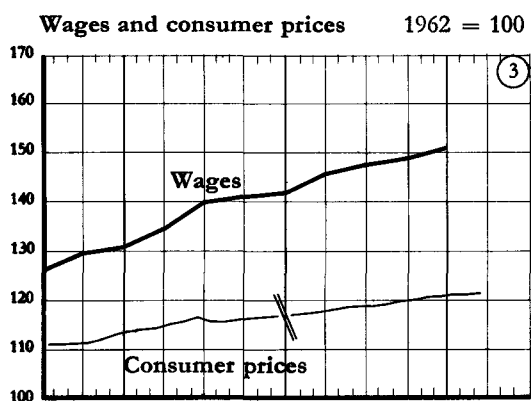
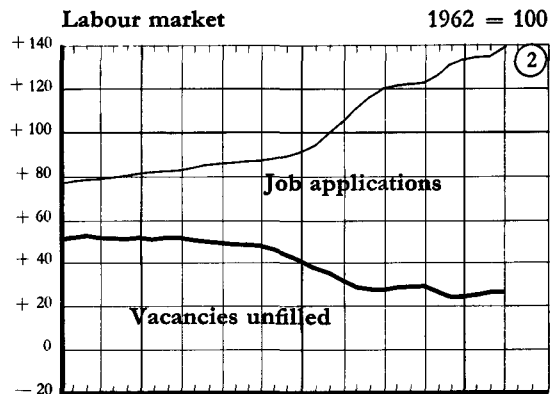
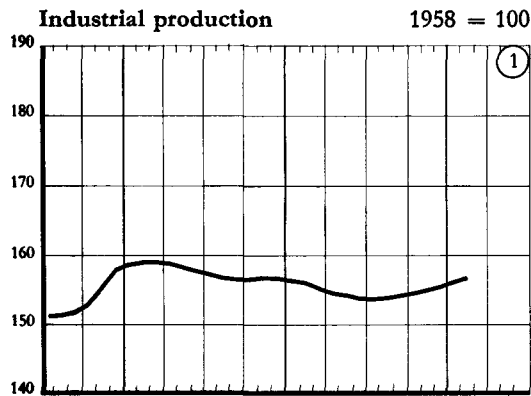
must be considered as fully in accordance with current economic policy priorities: the Government measures are aimed at improving utilization of available manpower resources and industrial capacity while avoiding the creation of further threats to the value of the currency. Given the need for achieving in the longer term growth that will be not only rapid but also balanced, the decision to pursue this objective primarily by means of stimulating investment is correct. For instance, expenditure on public works and on state-subsidized housing is to be increased. It is also planned to make more funds available to the Société Nationale d'Investissement and to extend the system of investment aid for private firms, mainly in favour of small and medium-sized firms.

At the same time the expansion of demand in other sectors is to be supported. The authorities have announced the relaxation of the regulations governing hire-purchase sales and the

granting of personal loans, the aim being to give some measure of encouragement to private consumers' expenditure. Various measures have been introduced to promote exports, such as interest cuts for certain kinds of export credit, and tax privileges, including the exemption of supplies of goods and services to the export industries from the invoice tax.

The measurable, direct effects of these new arrangements on the GNP should add at least 0.3 % to the growth rate. In view also of the fact that demand has shown signs in recent months of inherent vigour, a GNP growth rate (real) of 3.5 % for 1968 now seems certain. If, however, business trends in coming months suggested that satisfactory growth would not be achieved—because, for example, export demand was not coming up to expectations—there might be a good case for further official measures to stimulate the economy, particularly through the budgets.

ECONOMIC INDICATORS



NOTES:

Source : Statistical Office of the European Communities (except as otherwise indicated).

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2. Completely unemployed persons, receiving unemployment benefit. Adjusted for seasonal variations. Three-month moving averages.

Graph 3. Consumer prices. New index as from January 1967. Source: Ministère des Affaires Economiques. Agreed wages for operatives, all branches. Source: Ministère du Travail et de l'Emploi.

Graph 4. Loans made by monetary institutions.

Graphs 5 and 6. B.L.E.U., series adjusted for seasonal and accidental variations (three-month moving averages). Exports fob, imports cif. Conversion at official exchange rates.

u.a.: one unit of account = 0.888671 g of fine gold = US \$1 at the official exchange rate.

Belgium

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	30.5
Total population ('000)	9 669
Density of population per sq. km.	312
Numbers in employment ('000)	3 669
Numbers in employment, breakdown by main sector (%):	
— Agriculture	6.0
— Industry	45.3
of which : Construction	(7.5)
— Services	48.7
Percentage share of gross domestic product :	
— Agriculture	5.8
— Industry	41.2
of which : Construction	6.9
— Services	53.0
Gross product per capita (Bfrs)	95 100

TABLE 2: Key indicators

	% change by volume on preceding year							Volume indices (1958 = 100)	Contri- bution (in %) to GNP
	1960	1961	1962	1963	1964	1965	1966	1966	1966
Gross national product	+ 5.4	+ 4.7	+ 5.9	+ 4.5	+ 6.9	+ 3.6	+ 2.8	143	—
Industrial production	+ 8.2	+ 4.7	+ 7.5	+ 5.2	+10.2	+ 3.2	+ 2.9	156	—
Total imports	+12.2	+ 7.2	+ 4.8	+ 7.7	+10.7	+ 7.6	+ 7.8	196	39.2
Private consumers' expenditure	+ 5.7	+ 2.2	+ 4.4	+ 4.8	+ 3.5	+ 4.1	+ 2.9	133	64.9
Public current expenditure on goods and services	+ 5.3	+ 1.6	+ 8.8	+11.5	+ 4.1	+ 6.9	+ 6.5	162	13.3
Gross fixed asset formation	+12.8	+10.9	+ 5.8	+ 0.2	+11.8	+ 3.6	+ 5.9	178	21.4
Total exports	+ 9.5	+ 8.3	+ 7.7	+ 7.2	+11.2	+ 8.1	+ 3.7	183	38.7
Gross national product per capita	+ 4.9	+ 4.2	+ 5.3	+ 3.7	+ 5.8	+ 2.7	+ 2.1	135	—
Gross national product per person gainfully employed	+ 5.1	+ 3.7	+ 4.1	+ 3.6	+ 5.7	+ 2.7	+2.2	135	—

TABLE 3 : Foreign trade (at current prices)

	% change on preceding year							Indices (1958 = 100)	Million u.a.	% of the total
	1961	1962	1963	1964	1965	1966	1967	1967	1967	1967
Visible exports										
Total	+ 3.9	+10.2	+11.9	+15.5	+14.2	+ 5.2	+ 3.0	230	7 031	100
Intra-EEC	+ 9.7	+17.7	+19.6	+19.0	+12.8	+ 6.1	+ 3.2	322	4 429	63
To non-EEC countries	- 1.7	+ 1.9	+ 1.6	+10.3	+16.5	+ 3.9	+ 2.5	155	2 602	37
Exports of food, beverages and tobacco										
Total	+15.6	+29.6	+29.6	+ 3.2	+31.5	+ 8.4	+18.4	361	553	7.9
Intra-EEC	+18.7	+31.2	+30.7	+ 5.2	+31.6	+ 5.4	+25.6	479	420	6.0
To non-EEC countries	+ 8.7	+25.7	+26.8	- 2.1	+31.3	+17.1	+ 1.1	204	133	1.9
Exports of raw materials and manufactures										
Total	+ 3.4	+ 9.2	+10.9	+16.4	+13.1	+ 5.0	+ 1.8	223	6 478	92.1
Intra-EEC	+ 8.9	+16.7	+18.8	+20.1	+11.4	+ 6.2	+ 1.4	311	4 009	57.0
To non-EEC countries	- 2.0	+ 0.9	+ 0.7	+10.8	+15.8	+ 3.2	+ 2.5	153	2 469	35.1
Visible imports										
Total	+ 6.6	+ 8.0	+12.2	+15.9	+ 7.6	+12.6	- 0.1	229	7 167	100
Intra-EEC	+12.7	+ 8.9	+15.5	+17.5	+10.1	+15.4	- 0.6	272	3 983	55.6
From non-EEC countries	+ 1.0	+ 7.1	+ 8.8	+14.0	+ 4.8	+ 9.1	+ 0.6	190	3 184	44.4
Imports of food, beverages and tobacco										
Total	+ 0.1	+11.0	+ 9.0	+16.8	+15.2	+ 8.1	+ 9.9	210	981	13.7
Intra-EEC	+ 7.4	+ 3.2	+17.2	+16.3	+22.5	+10.6	+11.8	270	419	5.9
From non-EEC countries	- 4.0	+15.9	+ 4.3	+17.2	+10.6	+ 6.4	+ 8.5	180	562	7.8
Imports of raw materials and manufactures										
Total	+ 7.6	+ 7.6	+12.7	+15.7	+ 6.6	+13.2	- 1.5	232	6 186	86.3
Intra-EEC	+13.3	+ 9.4	+15.4	+17.6	+ 8.9	+16.0	- 1.9	273	3 564	49.7
From non-EEC countries	+ 1.9	+ 5.6	+ 9.6	+13.4	+ 3.7	+ 9.7	- 0.9	193	2 622	36.6

TABLE 4 : Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1966	143	144	162	151	146	158	120	146	162	160	155	156
	1967	150	147	160	155	146	161	113	146	162	165	162	156
	1968												
Construction (1962 = 100)	1966	68.1	97.3	117.6	108.8	106.9	118.9	71.1	117.8	122.6	112.7	109.8	100.7
	1967	84.6	94.1	117.0	110.3	113.7	121.1	71.4	115.7	118.0	121.5	116.4	78.5
	1968												
Unemployed ('000)	1966	69.7	68.2	63.3	61.1	57.5	53.3	55.7	54.9	56.0	58.4	65.0	74.9
	1967	82.5	85.7	84.4	83.8	81.9	77.9	79.1	78.1	80.3	87.5	96.0	106.7
	1968	114.5	113.7										
Investment (1961 = 100)	1966	106.7	141.0	154.7	155.1	165.8	170.0	117.8	153.9	160.2	155.9	165.1	156.1
	1967	134.6	151.1	167.0	167.7	170.4	176.8	122.1	159.1	160.2			
	1968												
Private consumers' expenditure (1961 = 100)	1966	135.8	137.5	140.9	146.9	143.4	147.4	144.4	145.6	149.0	141.2	145.7	151.0
	1967	146.0	147.1	150.2	152.4	154.2	158.0	156.1	152.6	153.9	149.8	153.5	160.9
	1968												
Total visible imports (million u.a.)	1966	519	554	618	556	587	611	520	592	594	609	616	641
	1967	581	550	630	574	610	655	465	598	514	640	688	649
	1968	624	704										
Total visible exports (million u.a.)	1966	493	528	620	560	534	604	514	471	603	575	594	621
	1967	574	594	609	604	581	597	525	460	529	697	618	649
	1968	621	675										
Balance of trade (million u.a.)	1966	- 26	- 27	+ 7	+ 3	- 53	- 6	- 9	- 121	+ 9	- 34	- 22	- 20
	1967	- 7	+ 44	- 22	+ 30	- 29	- 58	+ 60	- 138	+ 15	+ 57	- 70	0
	1968	- 3	- 29										
Official gold and foreign exchange reserves (million u.a.)	1966	1 968	1 946	1 956	1 954	1 950	1 950	1 964	1 956	1 926	1 960	1 956	1 952
	1967	1 970	1 939	1 951	1 972	2 044	2 118	2 152	2 196	2 212	2 220	2 250	2 200
	1968	(2 168)	(2 142)	(2 142)									
Money supply	1966	310.2	307.0	314.6	319.8	323.2	329.3	329.6	324.3	322.4	324.0	327.4	339.7
	1967	325.0	320.5	326.5	333.9	335.2	347.6	339.5	337.5	343.5	338.8	341.9	351.2
	1968	341.9											

() Provisional figures.

Belgium

NOTES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Table 1

- Total population at mid-year.
- Numbers in employment at mid-year.
- Breakdown of gross domestic product at factor cost,
- GNP at market prices.

Table 2

- GNP at market prices.
- Industrial production: value added by industry.
- Total exports and imports: goods, services and factor income.

Table 3

- Data refer to BLEU. Exports fob, imports cif. Conversion at official exchanges rate. The products have been regrouped on the basis of the Statistical and Tariff Classification for International Trade (CST): food, beverages and tobacco (groups 0 and 1 CST), raw materials and manufactures (groups 2-9 CST).

Table 4

- Industrial production. Source: Institut National de Statistique (INS). General index.
- Construction. Source: INS. Index based on number of man-hours worked.
- Unemployed. Source : Ministère de l'Emploi et du Travail. Wholly unemployed in receipt of unemployment benefit.
- Investment. Source: Département de l'économie appliquée de l'Université libre de Bruxelles (DULBEA). Gross fixed asset formation at current prices.
- Private consumers' expenditure. Source : DULBEA. Current prices.
- Exports fob, imports cif. Conversion at official exchange rate.
- Official gold and foreign exchange reserves. Gross reserves of gold and convertible currency of the official monetary institutions.
- Money supply. Notes and coin in circulation, excluding cash holdings of the Treasury, the Central Bank and other banking institutions other than the Postal Cheque Office. Residents' sight deposits (up to one month) with banking institutions. Holdings of the special agencies of the Treasury and non-residents' holdings on postal cheque accounts.

Grand Duchy of Luxembourg

Luxembourg exports picked up to a certain extent in the final months of 1967 and at the beginning of 1968. The contribution of domestic demand was scarcely any stronger, however, so that overall economic growth gathered only a little momentum.

In coming months, with exports expanding faster and a probable revival of industrial investment, a further slight acceleration is to be expected. The growth of the real GNP could well be 2.5 % or more in 1968.

1. Recent developments

The trend of exports of goods and services has improved a little during recent months. It is true that the growth of deliveries of iron and steel products has gathered very little momentum. But the data at present available suggest that export demand—notably from the EEC partner countries—has revived a little for products of the other Luxembourg industries.

The expansion of domestic demand, on the other hand, appears to have remained moderate in the fourth quarter of 1967. For one thing, expenditure on gross fixed asset formation, in particular by enterprises, definitely declined further. Secondly, the wage rise slowed down considerably and the propensity to save of households remained high, the result being a slower expansion of private consumers' expenditure.

The growth of supply has become somewhat more lively. Industrial production, apart from seasonal and fortuitous variations, has expanded fairly appreciably since the summer of last year, though the year-to-year comparison for the fourth quarters, according to the national index, showed barely any improvement.

As the number of employees in the iron and steel industry and mining continues to fall, tendencies towards more relaxed conditions have once again prevailed on the labour market. The number of job-seekers has increased slightly

again, while the number of unfilled vacancies has reached a particularly low level.

In the last quarter of 1967 the new official index showed that consumer prices were rising slightly more slowly, so that the rate of increase, year on year, was only very slight (2.2 %). By January/February, however, the index was nevertheless 3.1 % ahead of the corresponding 1967 figure.

2. Outlook

In the coming months the tendency for the Luxembourg economy to recover is likely to become stronger. This forecast is based in the first instance on the assumption of a somewhat more lively expansion of exports of goods and services: there should be a rather more vigorous growth than there was on average the previous year, mainly because of the expected expansion of intra-Community trade—more than 70 % of Luxembourg exports go to the other Community countries.

Moreover, domestic demand, which for by far the greater part of 1967 was weakening, may now show a fairly distinct improvement. For example, with regard to investment, the implementation of certain expansion projects by foreign firms appears to be assured; again, the authorities have decided to extend—admittedly to only a limited extent—the Road Fund investment programme for 1968. In addition, the growth of private consumers' expenditure might be somewhat more lively than was previously

Demand for and supply of goods and services

	1965 ¹	1966 ¹		1967 ²		1968 ³
	At current prices (in Lfrs million)	% change on preceding year				
		Volume	Value	Volume	Value	Volume
Exports ⁴	27 937	+ 1	+ 1	+ 3	+ 3.5	+ 3.5
Gross fixed asset formation	9 811	— 2.5	— 1.5	— 15	— 13.5	+ 4
Public current expenditure on goods and services	3 637	+ 6	+ 12	+ 1.5	+ 4.5	+ 1
Private consumers' expenditure	20 141	+ 3	+ 6.5	0	+ 2	+ 3.5
Gross national product	33 868	+ 1	+ 4	+ 2	+ 3.5	+ 2.5
Imports ⁴	27 807	+ 1	+ 1.5	— 3.5	— 2.5	+ 4.5

¹ STATEC, Luxembourg

² Commission estimates.

³ Commission forecasts.

⁴ Goods, services and factor income.

Notes :

(a) The difference between the figures for demand and those for supply is accounted for by movements in stocks.

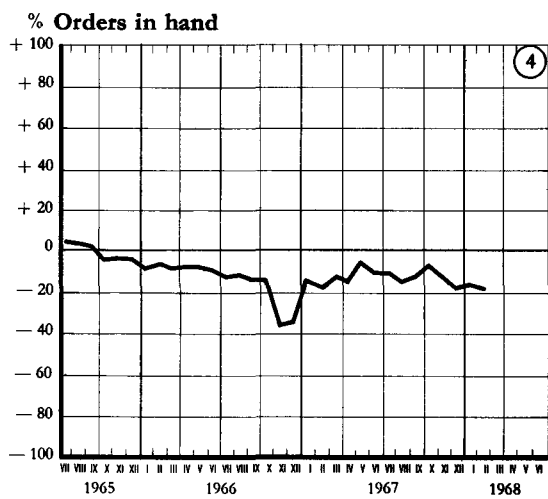
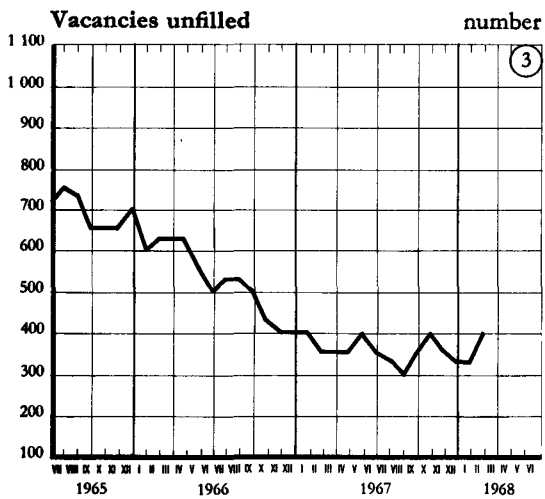
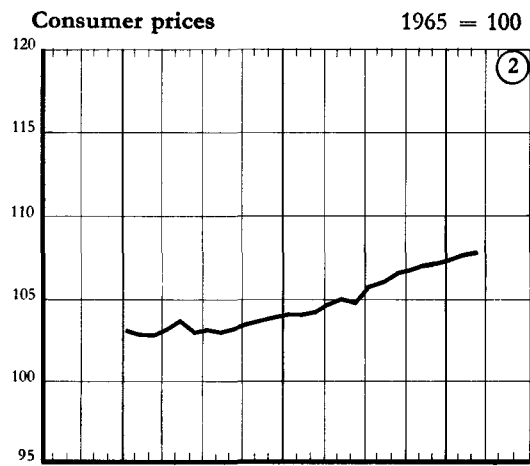
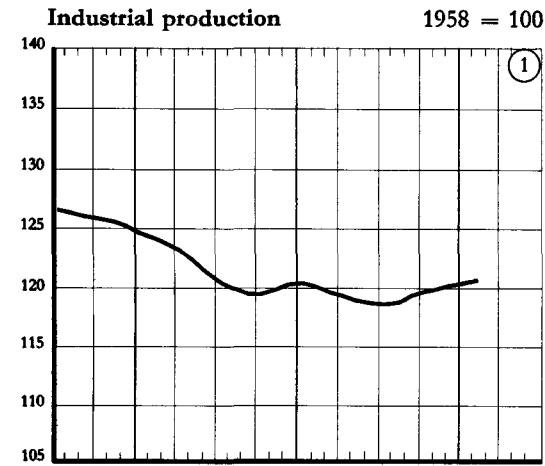
(b) The estimates and forecasts are approximations based on certain hypotheses, generally mentioned in the Quarterly Surveys. They have been discussed with experts from the member countries but are established and published on the sole responsibility of the Commission.

estimated, mainly because the fairly appreciable rise in wages in the iron and steel industry agreed at the beginning of 1968 will step up the incomes of households.

In view of the outlook, it can now be assumed that the estimate made in Quarterly Survey No. 4/1967 concerning the growth of the real GNP (2.5 %) for 1968 will certainly not be too high and may in fact prove a little too low.

A growth rate of 2.5 % may, if considered in isolation, seem modest. In view of the structure of the Luxembourg economy, the scope for a more vigorously expansive short-term economic policy is, however, very restricted. As has been frequently stressed, notably in the last Quarterly Survey, all measures taken with this end in view should therefore be very closely related to the priorities established and planning arrangements made for medium-term growth.

ECONOMIC INDICATORS



NOTES:

Source: Statistical Office of the European Communities (except as otherwise indicated).

Graph 1. Trend curve; estimate established on the basis of indices adjusted by the SOEC for seasonal and fortuitous variations (excluding construction, food, beverages and tobacco).

Graph 2. Source: STATEC. New index.

Graph 3. Index adjusted for seasonal variations. Three-month moving averages.

Graph 4. Source: EEC business survey.

Grand Duchy of Luxembourg

TABLE 1: Basic data 1966

Total area ('000 sq. km.)	2.6
Total population ('000)	(335)
Density of population per sq. km.	128
Numbers in employment ('000)	140
Numbers in employment, breakdown by main sector (%):	
— Agriculture	13
— Industry	46
— Services	41
Percentage share of gross domestic product in 1964:	
— Agriculture	6,2
— Industry	54,2
— Services	39,6

TABLE 2: Basic monthly indicators

	Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Industrial production (1958 = 100)	1966	120	121	119	122	125	124	119	111	119	121	121	117
	1967	120	121	121	123	124	122	121	111	120	119	123	119
	1968	118	120										
Crude steel production ('000 m.t.)	1966	369	354	380	367	353	369	368	346	377	383	365	360
	1967	371	360	389	379	372	377	376	356	382	375	376	368
	1968	375	377										
Construction (1958 = 100)	1966	45	53	91	99	101	101	96	95	94	87	73	54
	1967	89	46	69	72	81	78	78	69	70	70	65	55
	1968	40	49										
Workers employed in the iron and steel producing industry and in mining ('000)	1966	24.0	24.0	23.8	23.8	23.8	23.7	23.7	23.7	23.8	23.7	23.6	23.6
	1967	23.5	23.4	23.4	23.3	23.3	23.2	23.1	23.0	23.0	22.9	22.9	22.8
	1968	22.7	22.6										
Retail prices (1965 = 100)	1966	103.12	102.96	102.87	103.39	103.84	102.96	103.21	103.03	103.33	103.59	103.73	103.95
	1967	104.29	104.25	104.37	104.73	105.02	104.80	105.93	105.96	106.65	106.75	106.97	107.12
	1968	107.23	107.79										

NOTES

Source: Statistical Office of the European Communities (except as otherwise indicated).

Table 1

- Total population at mid-year.
- Breakdown of gross domestic product at factor cost.

Table 2

- Industrial production.
- Crude steel production. Source : Service central de la statistique et des études économiques (STATEC).
- Construction. Index based on number of man-hours worked. Source: STATEC.
- Workers employed in the iron and steel producing industry and in mining. Source : STATEC
- Retail prices. New index published from 1 November 1967 onwards. Source: STATEC.

Trends in industrial wages, productivity and labour costs in industry

Introduction: methods

Every year since 1962 the Commission's Quarterly Surveys on the economic situation in the Community have included an Annex showing the trends of wages, labour productivity, wage costs per unit of value added, and the implicit price index for industry (including construction), not only in the member countries but also in the United States and the United Kingdom. The reader should therefore refer to earlier Surveys¹ for explanations of the methods of presentation and calculation.

Here we need only recall that the statistical data have as far as possible been taken from national accounts, in order to ensure a sufficient degree of international comparability. In this connection, however, it should be remembered that, while trends in the indices can be compared from one country to another, their absolute levels cannot; the importance of this qualification is heightened by the fact that even the relationship between the various levels in the base year (1958) is not necessarily "correct". Moreover, the curves are based on calculations in national currencies, and some of the exchange rates have been altered since 1958. In respect of the latest trends, account must be taken of the devaluation of sterling, in particular.

The trend of wages is expressed as the change in compensation of employees per head. For Belgium, however, separate figures are still not available for compensation of employees in the various branches of economic activity; the index given by the Banque Nationale de Belgique for the wage bill has therefore been used in this case.

Labour productivity has been reckoned as the gross value added at constant prices per employee. For the United States, however, the Federal Reserve Indices of industrial production have been taken as the basis, because no unbroken sequence of figures was available for value added. Unfortunately, the statistics on hours worked in the Community countries are still incomplete, so that neither the trend of wages nor that of labour productivity could be calculated with the desired accuracy per hour worked. This makes it more difficult to interpret the events of the last few years, in which variations in the level of business activity have caused considerable changes in the number of hours actually worked in most countries.

It should also be noted—and this applies not only to labour productivity but also to the other items—that the charts reflect the actual trend but offer no information as to the reasons for it. The increase in labour productivity, as expressed in the charts, is merely an arithmetical calculation based on the two factors, trend in value added at constant prices and trend of the numbers of employees. It remains, of course, extremely doubtful whether an improvement in labour productivity can reliably be ascribed to individual factors such as increased effort, better organization, technical progress, or the like.

Labour costs per unit of gross value added are also calculated from two factors, the trend in wages and the trend in labour productivity; to obtain the relevant figure, compensation of employees is divided by gross value added (at constant prices) or, alternatively, compensation of employees per head is divided by gross value added (at constant prices) per employee.

The "implicit price index" reveals the extent of the difference between the trends in value added at current and at constant prices respectively.

¹ See, in particular, the Annexes to Quarterly Surveys Nos. 2/1962 and 1/1963.

It should be borne in mind that this index cannot be regarded as representative for the price trend of the end-products, since it cannot express changes in the prices of goods and services supplied to industry from other sectors.

Developments in 1967

In most member countries, the trends in wages, labour productivity and labour costs per unit of value added changed direction in 1967.¹

Labour costs per unit of value added declined in both the Federal Republic of Germany and the Netherlands.² In Belgium and—to a much smaller extent—in France, the increase became slower. In Italy, on the other hand, labour costs per unit of value added rose sharply, after falling in both the previous years; a relevant factor here was, however, the decision which took effect at the beginning of 1967 that a part of the employers' social insurance contributions would no longer be paid by the government, as had been the case since August 1964.

The decrease in unit costs in the Federal Republic of Germany in 1967 is mainly the result of the much reduced growth rate of wages (down to 1.5 % for the year); this reflected an adjustment to the easing of the labour market, which, compared with other member countries in a similar position, was relatively rapid. In addition, the advance in productivity quickened slightly (up to 3.5%); given the definitions used, this means that employment in industry declined much more sharply (by 6%) than did production (by 2.5%).

In the Netherlands, the increase in labour costs per unit of value added slowed down, mainly owing to a more moderate advance in wages. After rising by an average of 12 % in the years from 1964 to 1966 inclusive, wages went up by only 8.5% in 1967. Thus, in industry as a whole (including building and construction), labour costs per unit of value added fell slightly in 1967, but in construction special factors helped to account for this development.

¹ The calculation of the figures on which the graphs are based was completed on 15 March.

² The slight decrease in the Netherlands was connected with the exceptionally rapid rise in productivity in construction; this in turn was due to the fact that the weather was better than in 1966.

In Belgium, the growth of production proved much more moderate than in the Netherlands, but labour costs per unit of value added nevertheless showed a more favourable trend than in many previous years. Productivity continued to expand fairly steadily (by 3.5%), whilst the advance in wages slowed down to 5.5%.

In France, the slowdown in economic expansion in 1967 was reflected in the development both of productivity (3.5%) and wages (6%). On balance, however, labour costs per unit of value added went up somewhat less than in the preceding year.

Italy was the only Community country where labour costs rose more than in 1966. In this country, wages rose by 9%; this acceleration was bound up with the decision that a part of employers' social insurance contributions were no longer paid by the government. On the other hand, the growth of productivity, which had been very vigorous at the beginning of the economic upswing in 1965 and 1966, lost momentum in 1967. Nevertheless, it reached 5%—about the annual average for the last 10 years. In general, the trend in labour costs per unit of value added appears to have improved slightly towards the end of last year: the seasonally adjusted indices of production point to a faster pace of expansion during this period, whilst the upward trend in wages was relatively weak.

As appears from the prospects for economic development described in this Quarterly Survey, industrial production is likely to rise a good deal more rapidly in 1968, at least in the Federal Republic of Germany, France and Belgium. During the greater part of the year, there will probably be sufficient productive capacities available to prevent this acceleration causing fresh inflationary pressures. Thus a relatively favourable trend in labour costs per unit of value added can be expected.

In the two non-member countries included in the present survey—the United States and the United Kingdom—trends moved in opposite directions in 1967. In the United States, the slowdown in economic activity from one year to the next had an adverse effect on the development of industrial productivity. With a further 5% rise in wages—a relatively substantial one in view of the past trend in America—the upward movement of labour costs per unit

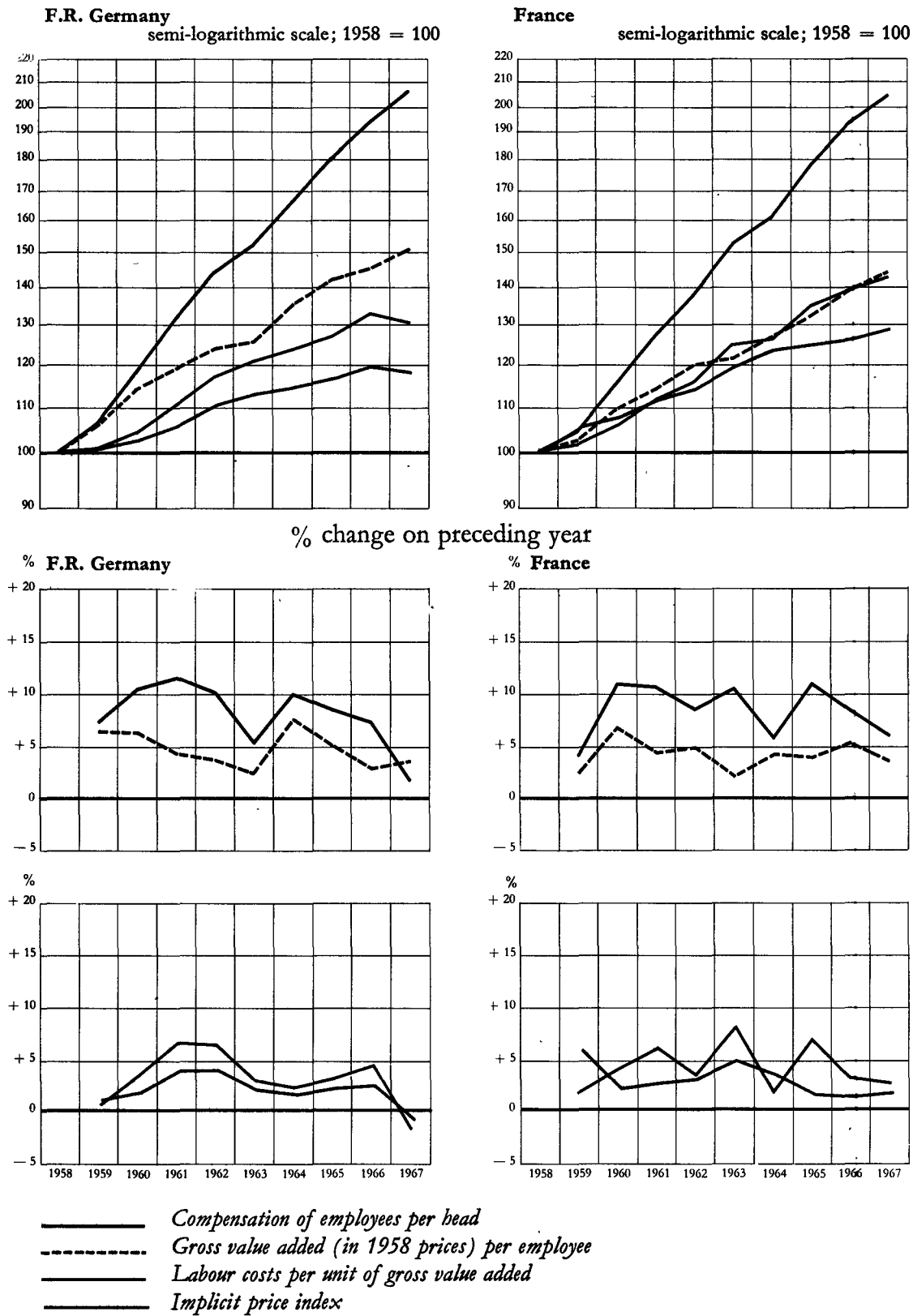
of value added, which began in 1966 after there had been almost complete stability for a number of consecutive years, became more rapid.

In the United Kingdom, wages went up only slightly during the first half of the year, when a very restrictive incomes policy was being pursued. The wage increase was only 3.5% (comparison of averages for each year). In

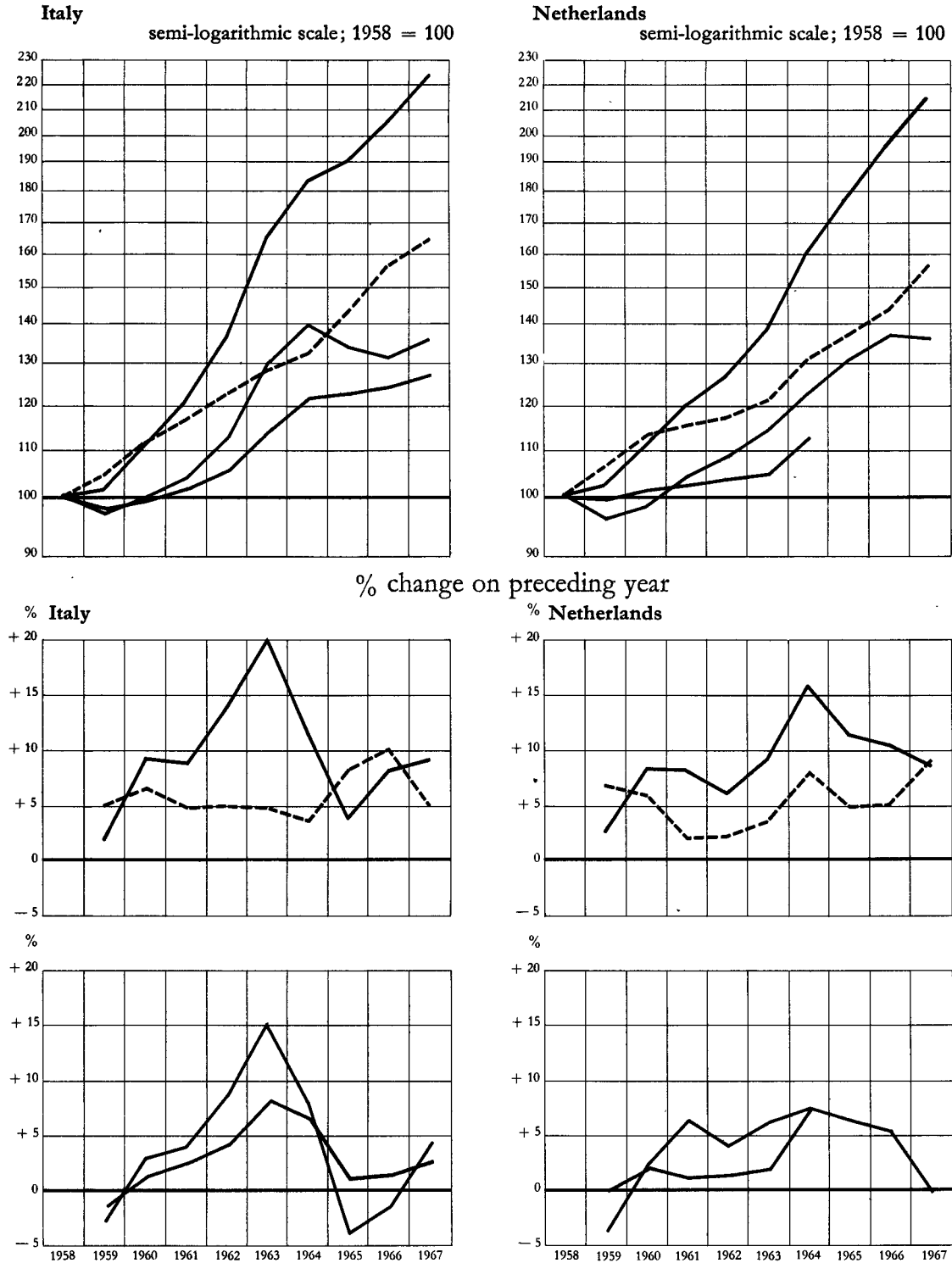
view of the somewhat more rapid advance in labour productivity compared with previous years, labour costs per unit of value added showed little change.

In any estimate of changes in the coming year, comparisons of labour costs trends must allow for the devaluation of sterling in November 1967.

WAGES, PRODUCTIVITY AND LABOUR COSTS IN INDUSTRY

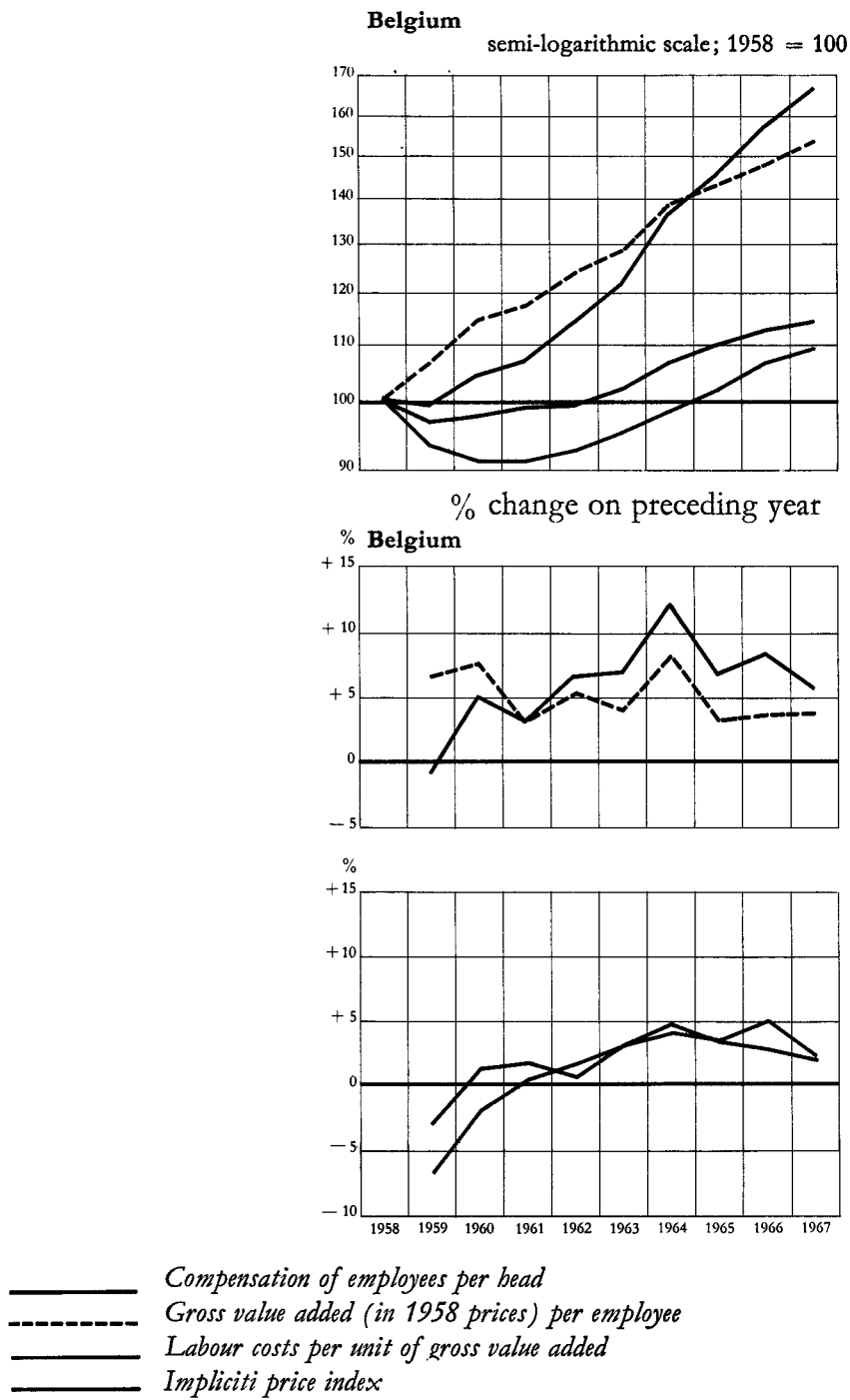


WAGES, PRODUCTIVITY AND LABOUR COSTS IN INDUSTRY

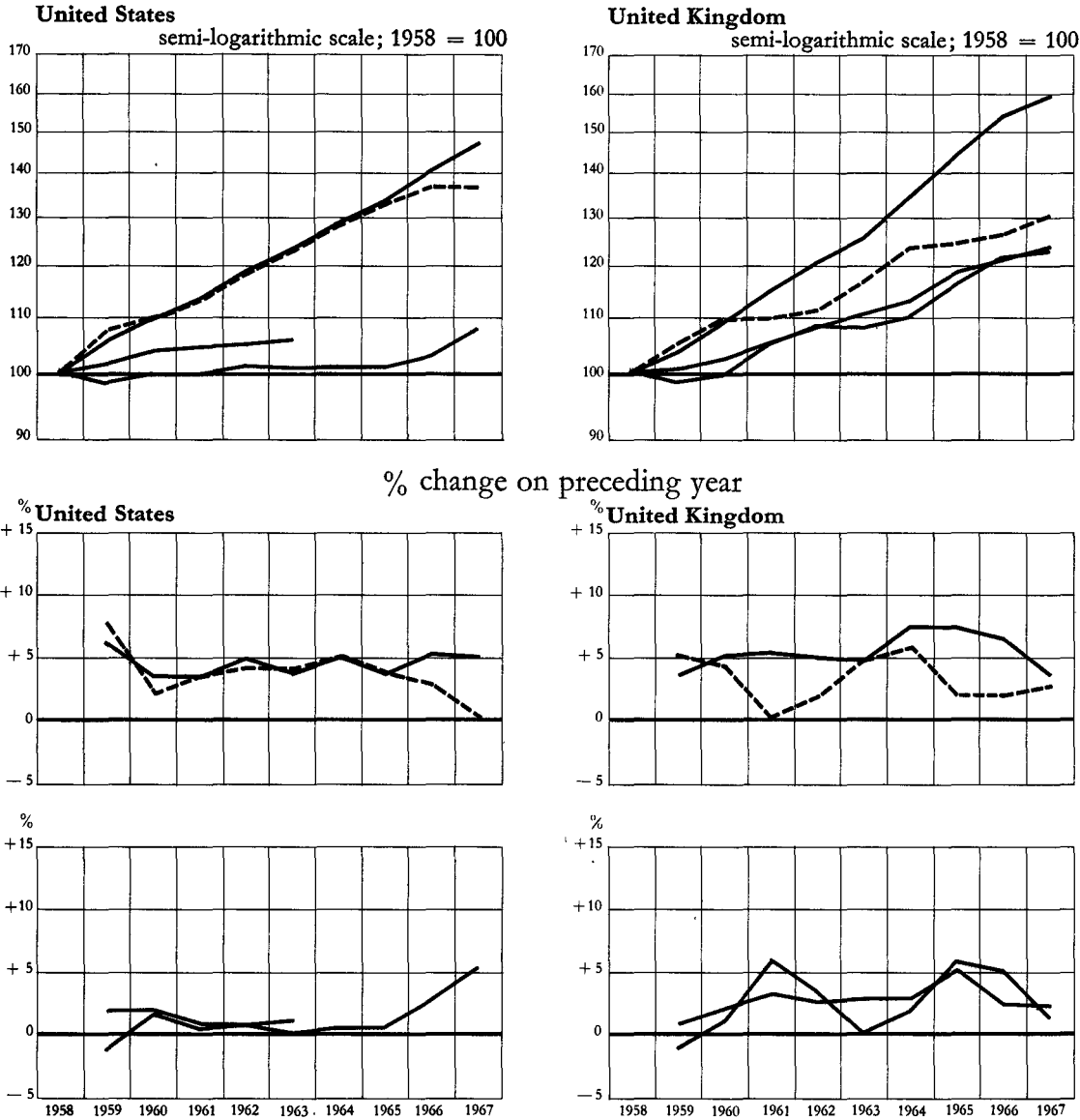


N.B. : The magnitudes represented in the graphs are expressed in national currencies.

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